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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hilton Third Quarter 2018 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.

At this time, I would like to turn the conference over to Jill Slattery, Vice President and Head of Investor Relations. Please, go ahead, ma'am.

Jill Slattery

Vice President & Head of Investor Relations, Hilton Worldwide Holdings, Inc.

Thank you, Denise. Welcome to Hilton's third quarter 2018 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 speak only to our expectations as of today. We undertake no obligation to publicly update or revise these statements. For a discussion of some of the risk 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 third quarter results and provide an update on our expectations for the year. Following their remarks, we'll be happy to take 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. Good morning, everyone, and thanks for joining us today. We're pleased to report another strong quarter, driven by our resilient business model. Adjusted EBITDA was at the high-end of our guidance range and EPS exceeded expectations. We continue to increase our industry-leading market share premiums and to deliver strong net unit growth, all leading to increasing free cash flow.

This setup coupled with a disciplined capital allocation strategy enables us to continue delivering long-term value for shareholders. Year-to-date, we have returned more than 8% of our market cap to shareholders or approximately $1.7 billion in the form of share buybacks and dividends.

Turning to third quarter results, system-wide RevPAR grew 2%, driven entirely by rate gains. Broader industry fundamentals remain favorable with solid corporate transient RevPAR up 3% and continued strength in group business.

Leisure transient was softer than forecasted, given weather-related disruptions and a meaningful impact from calendar shifts. Accounting for holidays and weather event impacts, we estimate second and third quarter RevPAR trends were essentially steady.

For the fourth quarter, we expect fundamentals to remain favorable but comparability issues due to weather impacts to continue to affect RevPAR results. Our updated full-year RevPAR guidance range is 3% to 3.5%.

Looking ahead to 2019, positive macro indicators suggest continued strength in lodging demand. This, together with decelerating supply growth in the U.S., should lead to fundamentals remaining positive, with regional GDP growth forecast indicating continued strength in international markets. Additionally, areas of the business, where we have better visibility, further support healthy dynamics going forward.

Group position for next year remains up in the mid-to-high single digits, with nearly 70% of group business on the books. And early corporate rate negotiations show healthy year-over-year increases. As a result, we feel good about things heading into 2019 and expect RevPAR trends similar to this year, with growth of 2% to 4%.

Our optimism also extends to our development outlook, where we continue to gain share of global activity. We ended the third quarter with more than 2,400 hotels, totaling roughly 371,000 rooms in our pipeline, up 11% year-over-year, driven by increases across both our U.S. and international pipelines. We remain on track to sign a record 110,000 rooms this year and deliver net unit growth of approximately 6.5% in 2018 and again in 2019.

Highlighting our commitment to disciplined capital-light expansion across segments and geographies, we announced several notable transactions in the quarter. We expect to nearly double our all-inclusive portfolio over the next several years through our strategic alliance with Playa Hotels & Resorts, including adding two additional all-inclusive resorts by year-end.

We also announced the signing of the Waldorf Astoria in Miami, which will feature private residences, retail and top restaurants. With Waldorf Astoria now having 30 properties globally, with recently added hotels in Las Vegas and Bangkok, we continue to gain traction among guests and owners alike.

Additionally, we converted three properties in Dubai to luxury and full-service brands across our portfolio. This conversion significantly increases our presence in a unique and growing market, while further strengthening our partnership with the Al Habtoor Group.

We continuously look for opportunities to broaden our demographic appeal and increase stay occasion among existing guests. With that in mind, yesterday, we launched our newest brand Motto by Hilton. Motto is an affordable brand that combines the best elements of micro hotels and urban lifestyle products. Properties will feature efficiently designed, adaptable rooms, innovative guest solutions and unique F&B offerings, local to each hotel's respective neighborhood.

Deals in various stages of development span prime global locations, including New York City, London, Washington, D.C. and Tokyo. At full scale, we estimate Motto could total several hundred hotels across all major geographies.

Our culture of innovation extends across brands and business areas, resulting in more loyalty members and growing market share premiums. In the third quarter, we added 3.7 million new Hilton Honors members, up more than 16% year-over-year. Our roughly 82 million Honors members now account for nearly 60% of system-wide occupancy.

System-wide RevPAR index premiums rose approximately 100 basis points in the quarter, with all major regions and brand segments contributing to growth. Our web-direct platforms remain our fastest-growing booking channels, a trend we expect to further accelerate with the rollout of Expect Better. Expect Hilton, our largest portfolio of marketing campaign to-date, launched at the end of the third quarter.

I'm very pleased we continue to be recognized for our ongoing commitment to our guests, team members, owners and communities. Most recently, Great Place to Work named Hilton number 2 on their list of the World's Best Workplaces. This is the third consecutive year we've been included on this prestigious list of global companies. Additionally, for the second year in a row, we were named to the Dow Jones Sustainability North America Index. We're thrilled to be recognized as an industry leader for our Travel with Purpose commitments.

Overall, the macro environment continues to drive favorable fundamentals. And as we look ahead into the balance of this year and into next year, we remain confident in our ability to continue to drive strong top line and bottom line growth and to expand our global presence. As a result, we expect to continue to generate significant free cash flow to drive shareholder returns.

Thank you. And now, with that, I'll turn the call over to Kevin to give a bit more detail on our results and the outlook going forward.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Thanks, Chris, and good morning, everyone. In the quarter, system-wide RevPAR grew 2% versus the prior year on a currency neutral basis. International RevPAR growth modestly exceeded expectations and continued to outpace U.S. growth. As Chris mentioned, weather and greater-than-expected disruption from calendar shifts led to modestly lower top line growth than we anticipated.

Adjusted EBITDA of $557 million was near the high-end of our guidance range, increasing 9% year-over-year. Our performance was largely driven by better-than-expected license fees and greater cost discipline. In the quarter, management and franchise fees increased 10% to $544 million, at the high-end of our expected 8% to 10% range. Diluted earnings per share adjusted for special items was $0.77, exceeding the high-end of our guidance.

Turning to our regional performance and outlook, third quarter comparable U.S. RevPAR grew 1%. Corporate transient and group business remained solid. Performance was somewhat tempered by softer leisure transient occupancy, given weather and calendar-related disruption. For full year 2018, we forecast U.S. RevPAR growth of between 2% and 2.5%, given good fundamentals, partially offset by continued difficult comps from the storms last year.

In the Americas outside of the U.S., third quarter RevPAR grew 5% versus the prior year, given a mix of strong leisure and corporate transient trends across Canada and broader market strength across the Caribbean. For full year 2018, we expect RevPAR in the region in the mid-single digit range.

RevPAR in Europe grew 6.9% in the quarter, roughly 250 basis points ahead of our expectations. Strength in Turkey, coupled with increased demand in Russia related to the World Cup, largely drove our results. For the full year, we continue to expect RevPAR in Europe to grow in the mid-single digit range, with strong trends across Continental Europe and an improved outlook for the UK and Ireland

In the Middle East and Africa region, RevPAR grew 1.3% in the quarter, led by increased group volume and strong ADR across resort properties in Egypt. Performance was modestly offset by softer leisure business in the UAE and Dubai, given supply and demand imbalances. For full year 2018, we expect RevPAR growth in the region to grow in the low single-digit range.

In the Asia Pacific region, RevPAR increased 5% in the quarter as typhoons and weather conditions slowed leisure growth. Trends in China remained robust with RevPAR up 8%, driven by strong industry dynamics and market share gains. For full year 2018, we continue to expect RevPAR growth for the Asia Pacific region in the high single-digit range, with RevPAR growth in China of around 11%, which accounts for weather-related impacts.

Moving to guidance, for full year 2018, we expect RevPAR growth of between 3% and 3.5% and adjusted EBITDA of $2.075 billion to $2.095 billion, representing a year-over-year increase of 9% at the midpoint. Guidance is in line with prior expectations, factoring for the third quarter beat, with some offset primarily from FX. We forecast diluted EPS, adjusted for special items, of $2.67 to $2.72.

For the fourth quarter, we expect system-wide RevPAR growth of between 2% and 3%. We expect adjusted EBITDA of $518 million to $538 million and diluted EPS, adjusted for special items, of $0.66 to $0.71. Please note that our guidance ranges do not incorporate incremental share repurchases.

Moving on to capital return, we paid a cash dividend of $0.15 per share during the third quarter, bringing year-to-date dividends to $137 million. Our board also authorized a quarterly cash dividend of $0.15 per share for the fourth quarter. For 2018, we expect to return between $1.8 billion and $1.9 billion to shareholders in the form of buybacks and dividends.

Further details on our third quarter results and 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. We'd like to speak with all of you this morning, so we ask that you limit yourself to one question and one follow-up that is related to your original question.

Denise, can we have our first question please?

QUESTION AND ANSWER SECTION

Operator: Absolutely, Mr. Jacobs. We will now begin the question-and-answer session. [Operator Instructions] The first question will be from Joe Greff of JPMorgan. Please go ahead.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Good morning, everybody.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Morning, Joe.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Chris, not so surprisingly, my first question or my question relates to your 2019 RevPAR growth commentary. I know it's early, but can you talk about how much of that is incorporated from some of ground up, either property level or regional inputs? And just broadly, can you talk about how you're seeing next year in terms of U.S., non-U.S. and then between corporate transient group and leisure? And then I have a quick follow-up for Kevin after that question.

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

A

Wow, this could take the rest of the call. I'm happy to do that. So, as you would imagine, this time of year, every year, we go through a process of looking, going top-down and bottom-up. I think, we start our budget process by sort of having a view of what's going on around the world broadly from a macro trend point of view, but also from a micro point of view in the various regions. We have lots of discussions with our teams in the regions and leadership and commercial teams. And then we go about a very granular bottoms-up budget process.

While we're not complete with that process, I would say we are 90% complete with that process, which does give us a very much a hotel-by-hotel and region-by-region look at what we think we're going to produce next year. And so what we would typically do is aggregate that up and then give you, given that we're in October of 2018 and we're looking forward to 2019, give a fairly broad range that's the point up and point down around a midpoint, in this case of 3%, just based on the fact that it's early, as you pointed out.

Important to note, so the range in outcome that we're giving, focusing on the midpoint, is very much the result of that process and very much the result of a buildup of a property-by-property and region-by-region analysis that takes a lot of time and effort by our teams. I think when you think about it, it is informed, from a macro point of view, by a few things. One, the current expectations are both for the U.S. and global GDP growth, that they will be relatively consistent with this year.

When you look at non-residential fixed investment numbers broadly, particularly in the U.S., they have been very strong this year and reasonably strong last year, forecasted to be strong, again, next year. That has the highest correlation to demand in hotel rooms historically.

In the U.S., looking at supply numbers, we think the supply numbers are going to tick down against that backdrop next year. Obviously, in the same way that we are experiencing difficult comps in the second half of this year related to both holidays and weather impacts, those comps, then, for the second half of next year, will become much easier, which will be helpful.

And then getting to the segments, our view, and I said it in my comments, is that we're seeing very healthy growth across all the major segments. If you sort of neutralize for all the weather and holiday impacts and then what's happening right now, which, we think, best we can see, is going to continue into next year, you saw post tax reform, business transient pick up from anemic growth of like 0% to 1% to sort of in the 2% to 3% range. You've seen leisure transient remain relatively steady and strong, sort of in the 3%, 3-plus percent range. And then you've seen group ticking up into the 3% to 4% range. That's what you've been seeing this year.

Again, when we neutralize for all the things that are going on with weather and everything else, we don't think that that changed in the third quarter. We don't think that's changing in the fourth quarter. We think those trends are broadly going to remain consistent and, I think, are supported by where we do have visibility, and I talked about it a little bit, are supported by the fact that we have a very strong group position, pace has been great, position going into next year is, frankly, as strong as I've seen it, and that supports it.

When we think about our special corporate negotiations and the dialogue with our big corporate accounts around both volume and our ability to drive some incremental rate, those conversations have been quite positive and stronger than where we were at this time last year. So, when we put all of that together, again, those macro conditions that I just walked through and then we look at it property-by-property and aggregate it up, that's where we come out.

And I've said this, I think, a bunch of times on the last call and otherwise publicly, next year, at the moment, it feels to us a lot like this year feels but both from the standpoint of our NUG growth but also our same store growth. And I do realize there is a negative sentiment out there. I read the papers, I watch the news, and so I appreciate that.

The reality is, when we look at the business and what it's producing today and we look at the forward trends that we have, it does not reflect. What it reflects is, what we've suggested is that next year, it looks like, all things being equal, we should be delivering results very similar to this year. And so that's what we're trying – we're trying to give you the best perspective we have in looking at the business in as scientific a way as we can.

In terms of, I think, the only question, Joe, I didn't get there was U.S. versus international. I think it's again common theme. I think next year is going to look a lot like this year. I believe the international will lead the U.S., it will be stronger than U.S. My guess is, particularly with the strong group base and tick down in supply, the U.S. will, probably – in our numbers, in our rollup will be modestly better, not materially, modestly better; and the international will be modestly lower. And they'll be modestly lower because, hard to replicate the year we're having in APAC and for that matter in Europe, so our expectation is, while it will outpace U.S. growth, it won't outpace it at quite the same rate, so a little bit more U.S., a little bit less international but I would say, I think, when the year is out next year, it looks a lot like this year and it's not going to be materially off of that. Did I miss any of your points?

Joseph R. Greff
Analyst, JPMorgan Securities LLC Q

No, you've hit them all, Chris, thank you. And then, Kevin, just quickly, you referenced FX as an offset or as the drag a couple of times in your prepared comments. What was the FX EBITDA impact in the 3Q? And what's incorporated in the 4Q relative to a quarter ago?

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.
A

Yeah. In the fourth quarter, so in the third quarter, it was sort of mid-single-digit millions. In the fourth quarter, it's about the same. So, if you take, we beat by $7 million, it's the majority of that $7 million coming down – bringing the full year down to the midpoint is FX.

Joseph R. Greff
Analyst, JPMorgan Securities LLC
Q

Got it. Thank you so much.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.
A

Sure.

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

Harry C. Curtis
Analyst, Nomura Instinet
Q

Hey, good morning.

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

Good morning.

Harry C. Curtis
Analyst, Nomura Instinet
Q

Just wanted to drill down a little bit more maybe into regional question. First of all, if we were to see any evidence of global economic slowing, probably be in Asia, what are you seeing there as far as pacing in price for the next, say, 6 to 12 months.

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

We haven't seen, Harry, a whole lot of difference. You can look at our third quarter numbers, then I think rightfully say, well, it looks like it's cooled off a little bit. But I think they're – not to make excuses, I think, scientifically, they're just – there were things going on in Asia that drove that. You had a bunch of typhoons that affect – some affected in China, a meaningful effect in Japan, other sort of one-time events that affected Southeast Asia. So, those are the things, when we look at what happened in the third quarter, were driving it. The basic underlying trends, like much of the world, we think are relatively stable.

Having said that, it does appear that China's economy is slowing down, sort of, as I said, we read the papers, I was just in China, we're around the world a lot. And so, when I said our expectation is maybe a tick higher in the U.S., a bit lower driven by Asia and Europe, maybe not being able to keep up quite the pace of growth, some of that – we have certainly built some of that into our thinking. In other words, we would expect China to finish this year sort of in the 11% range as an example.

We are assuming something lower than that next year honestly. I think, it's 8% or 9% from a budgeting point of view, just to put it in context to be reflective of the fact that even though we haven't seen any meaningful trend other than sort of the impact I told you in third quarter, we haven't seen an underlying weakness. The reality is that the economy is going to slow in China, there should be some knock-on effects.

So we've tried to reflect that in the numbers for Asia Pacific, largely driven by what I talked about in China. And same in Europe, Europe is having a really good year. And the expectation is it's just – to a degree, we're early but we have a great group position et cetera, but group is not nearly as much of the business over there. I think just to be a bit conservative, if you will, we've assumed that we won't have quite the growth rate.

So, we've tried to reflect that in, but in terms of like have we seen real signs of like sort of global slowdown in the core parts of the business, we have not seen that. We are trying to be thoughtful and reasonably conservative about looking into next year to incorporate some of those views, but we have not real-time seen it.

Harry C. Curtis
Analyst, Nomura Instinet

Q

Very good. And let's come back to the U.S. My question is as you've been having conversations with meeting planners and heads of corporate travel, what are they telling you about next year's demand needs? And is there any evidence of pushback? What I'm trying to get a sense of is you've been dealing with them for a long time, how reliable – how often are they right, is it a reliable forward indicator?

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

A

I think that they're right until they're wrong. I know that's not the answer you want. I mean, here is the thing. When we're talking to our – the meeting planners and on the group side, you heard we have a lot of optimism because the numbers suggest we should. I said on the corporate side, special corporates, by the way that's only 10% of the business, so keep it in perspective. But it's a good sideline into the psychology of some of the biggest companies we deal with. All those are positive. I mean, not everybody is created equal but broadly people say they're going to travel more for business and for meetings and they know they're going to pay more and they're willing to pay more. And they're willing to pay more at an increasing rate as compared to what they would have said a year ago.

So, again, I don't want to be Pollyanna, but I think all of that's positive and I think all of those judgments are based on the fact that people think that the global economy, the U.S. economy in the case of U.S.-centric companies are just going to hang in there and keep chugging along, which is, obviously, what is built into the assumptions of our guidance. But the conversations have been quite positive, I mean, not racing to the stars but incrementally more positive than when I was sitting here a year ago. It would be hard to say it in any other way.

Harry C. Curtis
Analyst, Nomura Instinet

Q

Very good. Thanks Chris.

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

A

Yeah.

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

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, everyone, good morning and thanks for taking my questions.

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

A

Hey, Carlo.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

You guys talked a little bit about what you're seeing in terms of the demand side in China, et cetera, but on the pipeline side, has anything changed with respect to the cadence of your discussions and/or the kind of ongoing development that would give you guys any pause?

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

A

Not really. I mean, I think, why I talked about one of the supporting factors in the macro side on the fundamentals was supply is going down in the U.S., okay? So it stands to reason that it's getting – if that's happening, it's getting harder for everybody to get deals done in the U.S. Thankfully we fight it twice, we're 11-and-change of the market in the U.S. and we have 25% of the rooms under construction or something like that. So when we fight way over our weight, but I would say the trend line continues in the sense that it's getting – we're getting more than our fair share, but it's getting harder to get deals done.

So, even though we will hit a record in signings in the world this year, another one off the record of last year, signings in the U.S. will go down a little bit, starts will go down a little bit, NUG will go down a little bit because it's getting harder to get deals done. So it's not getting – I mean, incrementally it's not getting – since the last quarter I don't think it's dramatically or materially different, but it's definitely harder, why? Inflation is picking up, cost of labor is going up, cost to build projects is going up. We think by the end of the year, it'll be sort of a 10% increase in the cost to build.

While you're not seeing incredible turn of the wheel and tightening of credit, it's just a little bit tighter, a little bit harder to get things done. Interest rates are a little – are moving a little bit in the wrong direction. So, all of that adds up to – it makes it harder in the U.S. and that's why you see supply going down. And I think you'll keep seeing supply go down because it takes a long time for that cycle to reverse.

I would be remiss in not making the following statement. The great news is the reason we're signing record deals and we're going to have a record delivery of NUG this year and it's going to go up, again, next year is because the world is a big place. And we've anticipated the ebbs and flows and allocated our resources appropriately around the world. And so while one market is slowing, in this case the U.S., other markets are picking up. So Asia Pacific continues to pick up. Frankly, all of our international markets continue to pick up. And we continue to get better and better at what we do at sort of building relationships and deploying our brands in intelligent ways to keep our growth going, so that's how we can add more net rooms next year and hit another record than we did this year, notwithstanding the fact that the U.S. market is slowing. And I think we'll continue to be in a slowing pattern until you have – until the whole sort of system resets itself.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Great, thank you.

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

A

Yeah.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

And then, if I could, Chris, you've always been kind of very firm in your views on M&A and your ability to kind of develop and grow from within. In the current environment, has anything changed in your perception of where and when possible, you would consider acquisitions?

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

A

No, no, the short answer is no. The filters have always been – for the 11 years I've been here, the filters have literally remained the same. Does something really work well strategically in terms of brands and our brand portfolio versus what we can do on our own and does it – can we do it in a way that's really accretive to value? And as we filtered and I say it all the time, we look at almost everything, everything to-date that we have filtered through that, those lenses, really has not made sense versus what we're doing like launching Motto by Hilton just yesterday, where we think we can do it better than anything out there and we can do it exactly the way the customer wants it and create more organic growth without having to buy growth. So, we keep making that decision because I think it's been the right decision. I always end this M&A discussion with never say never. I'm not saying that something wouldn't pass through that filtration system. It hasn't to-date and our philosophy remains exactly what it has been.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Great, thank you sir.

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

A

Yeah.

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

Stephen Grambling
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Just, I guess, a couple of quick follow-ups to Carlo's questions. I guess, first, are you seeing any changes in the competitive dynamic as it relates to getting deals done, whether that's terms and/or the need for key money to incite deals? And would you anticipate that to change if the environment remains tight? And then second, given the current weakness in the stock and market more broadly, I guess, how is your approach to capital allocation evolving? And can you just remind us of your leverage thresholds? Thanks.

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

A

I'll take the first and give Kevin the second. The competitive environment, I'd say, did not change in any material way. I mean, in the U.S. when there is less getting done, deals get a little bit harder to do. Reality is, as I said, we fight way over our weight because we have the highest market share brands and the highest average market share. That doesn't mean we don't compete. On occasion – sometimes we don't but on occasion we do. So, I would say in a minor way, I'd say the deal terms in the U.S. have gotten incrementally tougher but not in any material way. Around the rest of the world, really no change, things sort of click along as usual, so I'd say not much to talk about there. Kevin, on capital allocation.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah. And then, Stephen, on capital allocation, nothing has really changed. I mean our stated leverage range is 3x to 3.5x. You saw us get kind of the top-ish, maybe a little bit higher on a trailing basis to that range when we did the HNA transaction earlier this year. So, we're still thinking about the same things the same way. We'll continue to distribute the lion's share of our free cash flow. You noticed from our prepared remarks that we're keeping the dividend the same, which means that as the EBITDA of the company grows, the amount available for share buybacks will increase accordingly, but nothing has really changed yet strategically.

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

A

Yeah, we like the stock at $88. Obviously, we'll like it even better at this price.

Stephen Grambling
Analyst, Goldman Sachs & Co. LLC

Q

Great, thanks. I'll jump back in the queue.

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

Shaun C. Kelley
Analyst, Bank of America Merrill Lynch

Q

Hey, good morning, guys. Just wanted to ask, I think, in the press release this morning, you guys actually put in a comment on the unit growth side around conversion activity and how important that is or maybe becoming. So, could you just give us a little bit more color there? So, first off, is conversion activity accelerating at this point in the cycle? And then what are you seeing or hearing from your development organization on that front and how much of that is sort of factored into your net unit growth outlook for 2019?

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

A

Yeah, good question. I expect that conversion activity will accelerate more. I would say what we've seen technically so far is a minor acceleration, not much of a uptick. I think when we finish the year, we'll probably do in 2018 about 20% of our NUG will be conversions. I think, ultimately depending on what goes on, this is sort of countercyclical, when things gets tough, conversion activity picks up. We've seen a little bit of an uptick this year.

We're not expecting, given our outlook for next year, to see a whole heck of a lot of uptick because we think next year is going to be another pretty good year.

Eventually when a business cycle turns, I think you would see those numbers go up. But what's built into our expectations for our 6% to 7% is a comparable percentage of conversions, which is about 20%. We have almost never delivered less than that and we have more tools and more weapons in the arsenal in the sense that in the old days, we had really one conversion brand in DoubleTree. Now we have Tapestry, Curio, soon soft luxury brand that is coming in addition to DoubleTree and other brands, but those will be the brands where you find the bulk of it.

So, we will eventually see the numbers tick up, I don't think real soon built into next year as a comparable level to this year. So, a lot of next year, when you boil it down with that gap having to, obviously, be filled, a lot of next year is in the bank in the sense that the 80% of it is under construction. I mean, it may move a month or two here or there, but it's in process.

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

Can you just give us a sense, Chris, like at a high level, where that number was or the conversion activity was kind of two to three years ago, just as a guidepost for that 20% number? Was it lower two or three years ago kind of and directionally, how much?

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

No, we've been running like 19% to 25%. I mean, coming out of the Great Recession on a much smaller base and the Great Recession, obviously, was a very big countercyclical opportunity, where there was a lot of fear in the markets. I mean we maxed out in the high 30s. I think, I wouldn't expect that we would get to that level again but we've been sort of running around this level. So, I don't feel like this is certainly – it doesn't feel like it's a big pull to us. My development team, of course, knows they've got to do a lot of work, so if they're listening, I don't want them to think otherwise. But this is something we have typically been able to deliver with a fair amount of ease.

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

Very helpful. Thank you very much.

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

Yes.

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

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

Good morning, Chris.

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

Good morning.

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

Q

I wanted to see if you could put a little finer point on corporate rate negotiations. I know it's only 10% of the business, but the owners are saying it's critical for ADR growth for next year. At one point, you said you're seeing healthy rate increases, but then you kind of broke it down and you said something about occupancy or the demand side. Then you said you hope to see some incremental rate increases. So I'm just curious. Are we looking at kind of 0% to 1% on the rates, are we looking at 2% to 3%? What are you...

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

A

I think we're looking at – last year we were looking at like 1-ish, you could argue 1% to 2%, but I think it really ended up in the low 1s. We thought 1% to 2%. It ended up closer to 1% than 2%. Right now, it looks like 2% to 3%. I mean, I talked to the teams yesterday to get the latest and greatest update. And it feels to them like 2% to 3%. Now, again, it's 10% of the business, but obviously a good indicator.

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

Q

Okay. And then maybe for Kevin, on the capital return, obviously, you had the opportunity this year to buy back maybe more than you would have, but given, Chris, your commentary on the sameness of next year versus this year in different metrics, should we assume $1.5 billion to $2 billion of capital return?

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, I think, Bill, the way to think about it is next – we did bring forward some leverage into this year around the HNA opportunity. So, the trade-off, obviously, is free cash flow. We've got to be careful we're not giving bottom line guidance, but free cash flow, if you just take what we're saying about RevPAR, net unit growth ought to be a little bit higher next year than this year. And then you will have the opportunity as EBITDA grows to re-leverage a little bit, but we brought leverage forward this year around the HNA deal. So, if we were to hit the midpoint of our leverage guidance for next year, it's logical to assume that the amount would be somewhat lower next year than it was this year.

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

Q

Okay, that's it from me. Thanks.

Operator: The next question will be from Anthony Powell of Barclays. Please go ahead.

Anthony F. Powell
Analyst, Barclays Capital, Inc.

Q

Hi, good morning. Could you provide us some more detail on your group position being up mid to high single digits, what markets are driving that, and is it more volume or rate?

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

A

So it's broad-based. There's not like one industry group driving it or, frankly, one region, although the bulk of our group business ultimately is in the U.S. It is broad-based. It's up, I would say, in the close to 8% range. Now, we, being perfectly objective and as scientific as we can be, we believe some of that has to do with commission policies. We do believe that as we look into next year. Now, the business is going to show up, so it's going to be good for the business but we do believe, as a result of the change in the commission policies, that we advance some amount of bookings and we think that probably means that the real position is 8% to 9%, we think, when you sort of back out the commission effect, it's still very easily 5% to 6% up, which we feel good about. And it's basically split pretty evenly between – I was just looking at this yesterday as well, it's basically split pretty equally between volume and rate.

Anthony F. Powell
Analyst, Barclays Capital, Inc.

Q

Got it, thanks. And on the other end of the scale, some of the limited service brands underperformed in the quarter and this year. Is that just due to higher supply growth or is that a bit of a demand component that is impacting relative RevPAR growth?

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

A

I think that's what you're seeing kind of broadly across the industry and I think it's a combination of things. Yes, more of the supply growth. Even the supply growth is low and it's going down, you certainly have seen more of the supply growth in those segments, which, I think, is probably the largest contributor. We have some other specific things going on if you look at it. But, I mean, in terms of renovation work going on like in the Hampton brand, I think, 25% of the brand is under renovation at the moment and that has some impact. But even with that, the Hampton brand has grown market share. So, it is still outperforming the market. I think broadly in terms of why is that segment in the market is underperforming is to do with the incremental supply in that area, which will be diminishing.

Anthony F. Powell
Analyst, Barclays Capital, Inc.

Q

Right. Great, thank you.

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

A

Yeah.

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

Robin M. Farley
Analyst, UBS Securities LLC

Q

Great, thanks. One, shorter-term question and one longer-term question. You were talking about some of the factors that led Q3 to come in a little bit lower in the U.S. than you had thought. When we look at just the weekly data so far, first half of October is also not off to a great start, so just wondering if you see sort of a clear – what you see in your sort of next 30 days in the U.S. looking different maybe than kind of – it looks like some of the same trends have continued in early October, so I hate to be so short term about it but I know that there's concern out there about kind of what happened in the short-term versus previous guidance and all of that. And then my other question is on group, I think, you said 3% to 4% is what the increase was in 2018. I don't know if you put numbers around and you said 70% of next year's group is on the books but where you're seeing rate and volume for group business for 2019 so far? Thanks.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, Robin. I think for the last few weeks, you're still seeing kind of residual – you're seeing continuation of the tougher comps from last year, where the storms and the other weather-related events, particularly in the United States, just generated a lot of business last year that we're still comping over. So, our outlook for the year incorporates a little bit better fourth quarter than third quarter. So, I think you're still seeing some of that show up in the weeklys. And then on the group side, I think, it's about the same, the picture is about the same, it's about half and half between – split pretty evenly between volume and rate in that 3% to 4%.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Yeah, but I was asking about your 2019 group, what you have on the books and rate and volume, what level of increases or not increases for 2019 versus what you saw a year ago for 2018?

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

It's about the same, yeah, it's about the same.

Robin M. Farley
Analyst, UBS Securities LLC

Q

So, in other words, were the 3% to 4% where group is ending up for 2018, is exactly what you thought it would be a year ago?

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

A

That's pretty comparable, yeah.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, that's pretty comparable. I think about a year ago, we were saying mid-single digits and it's coming in sort of 3% to 4%, pretty close as we expected, yeah, sorry I didn't understand the question, Robin.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Right, in other words, just thinking about where group came in versus your expectations for 2018 and then how that means for 2019?

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

A

They came in consistent with our expectations.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Okay, great. Thank you.

Operator: The next question will be from Patrick Scholes of SunTrust. Please go ahead.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. Good morning. Thank you. My first question relates to your management business. What are you seeing or forecasting for labor costs growing at next year?

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

A

Yeah, I think next year, Patrick, probably about the same as this year on the labor side. Probably 3% to 4% all-in wages and benefits, which is, I think, about the same as this year.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay, Thank you. And secondly on the group number that you gave for 8% to 9% next year, and correct me if I'm wrong, that's not a same-store number. Do you have a same store number that you can give?

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

A

So, that is the system-wide same-store. What I was trying to do is make sure that we're being honest about trying to filter out the impact of anything we thought that was a result of bookings being advanced because of our change in commission policy. Now admittedly, Pat, that's – I mean, we're trying to apply science to it, it isn't going to be perfect science, we look at what we're doing through intermediaries versus what we're doing in direct bookings to sort of arrive at an equation that tell us where we think we'd be. Mid-single digits, 5% or 6% is where we think we feel confident without any changes in commission policy we would've been, which is not too terribly – as Kevin point out, not too terribly different than where we were at this time last year. That's why we think delivering 3% to 4% next year when we finish the year in group growth is reasonable.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you. Makes sense.

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

A

Yeah.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. That's it

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

Rich Allen Hightower
Analyst, Evercore Group LLC

Q

Hey, good morning, everybody.

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

A

Good morning.

Rich Allen Hightower
Analyst, Evercore Group LLC

Q

To quickly follow up on Pat's question there, just in the context of ongoing union negotiations around the country, I think it's been a little more impactful recently to Marriott then you guys but within that 3% to 4% labor cost assumption for next year, how much variability would you say is included within that range, again, given the ongoing nature of those sorts of discussions?

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

A

I don't think a lot of variability. Obviously, we're not going to comment on negotiations going on with the unions, which are ongoing. We have a good relationship with the unions and they've been sorting through market by market deals. I think that we will end up in those ranges regardless of where those deals turn out. Remember also that in our case, it's a little less than a third of our workforce is in organized format, so two thirds of it is outside of that. When you blend it together, we had, in Kevin's number, he's – in that range, he's...

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

It's the whole system, yeah.

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

A

...it's the whole system and he is factoring for that.

Rich Allen Hightower
Analyst, Evercore Group LLC

Q

Okay, that's helpful. And then another quick follow-up to the capital return forecast whether speaking of this year, next year, just, in general, how much – how quickly can you pivot if need be given a short-term dislocation in stock prices as we may or may not be seeing kind of in the current environment, against those longer-term capital return forecasts and also the leverage limits that you guys referred to?

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah. I mean, I think, if we want to, we have a significant amount of flexibility and we can pivot quite quickly.

Rich Allen Hightower
Analyst, Evercore Group LLC

Q

Okay. Any more specifics around that or just as a general comment?

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.
A

No.

Rich Allen Hightower
Analyst, Evercore Group LLC
Q

Okay. That's all from me. Thanks.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.
A

All right thanks.

Operator: The next question will be from Smedes Rose of Citi Research. Please go ahead, sir

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

Hi, thanks. I wanted to ask you about this new brand rollout, Motto, when you did Tru, I think you...

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

Motto, come on Smedes, get it right.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

Motto, Motto, sorry.

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

You have a Motto. It's not MotoPhoto.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

When you did Tru, Chris, I think that it was initially offered to owners of Hampton Inns and then, obviously, you went on to a very successful rollout. I'm wondering is there anything that you're doing to kind of jump start this brand with your current owners, maybe sort of any feedback on initial sign-ups that you're receiving from developers that you can share with us?

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

Yeah. I'm happy, thank you for the question. I'm glad we got a question on our new brand. It seems like people ask about our new brands every call and now we launch one and nobody wants to talk about it but happy to talk about it. We're very excited about Motto by Hilton. And we are, of course, as we would do with all our brands and you're right to point out, look, that we went to our most important Hampton owners largely and gave them the opportunity on Tru. Doing a very similar – we have a very similar approach with Motto always because our existing owner base has been very loyal to us and we want to be loyal to them. So, not only are we going to them as the first shot out of the blocks to, say, hey, do you want to work with us on this, but there has been a cadre of them that have been very involved in the development of the brand. Let me put it in [indiscernible] (50:18). We're always talking to customers and doing focus groups as we design these brands and figure out how to make them tick the right way, so that they'll appeal to customers but we are also working very closely with owners to make sure that we're engineering the cost to build and the cost to operate in a way that they'll deliver returns that work for owners. Otherwise, we'll have a great thing for a customer, but we will have no hotels for the customer to stay in.

So it's very much sort of a dual process. And so we brought a great cadre of owners that we worked with around the world and to be part of that process. And they are very excited about it and so not surprisingly the first deal, many of the first deals we're doing are with existing owners, not all but many of those deals are.

We have essentially, I think, we have six deals I mean these are more complicated than Tru's given that they are urban and by the very nature of what it is, it's a little bit longer gestation period and higher degree of complexity. We have about a half a dozen deals done. I would say, based just on the conversations I've been having including yesterday where we've had a huge group of owners in for the launch here at our Innovation Gallery, we probably have another 20 deals sort of cooking, and ultimately, Tru will be thousands of hotels, okay. Tru will be the biggest brand we have just because of the price point it's at.

Motto will be very big, but as I said in my prepared remarks, it's hundreds of hotels. So I think we're off to a great start. It's a wonderful way for us to better serve our existing customer base. Even more importantly, it's a great customer acquisition, so it's great product that we can attract customers that have heretofore not been able to stay with us that want to be in an urban environment and adventurous and they need a product at a price point they can afford whether they are young, in middle-aged or old that this is where they want to be and this is a product now that we are putting out there that we think will make it much more affordable for them to stay with us. And when they stay with us we have a pretty good track record of getting them to try other things with us.

So we're very excited about it. Again, these are more complicated urban deals they take longer to sort of pull together. But I think you'll see that we'll very quickly get the pipeline into the dozens of hotels and I think we'll start bringing it to life and reality. Hopefully, next year you will be able to take on a tour of the first Motto.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Great. And then I just wanted to ask you mentioned you guys hit about 80 million Honors members at this point. Can you – have you seen any change in the percent of bookings going to direct versus OTAs or is that ratio still pretty constant.

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

A

No, the ratio is good what we saw in the third quarter it generally tracks year-to-date, but third quarter number is, we were growing our direct channel share and the OTAs were flat. So that – and that's before we essentially started the latest big push on our campaign of direct book that started rolling at the end of the quarter. So the trends are what we want to see, which again is not that we're not going to or don't want to work with the OTAs, we do, we just want to work with them in the right times, in the right ways at the right price. And we want to more and more to have a direct relationship as much as we can and that's what we're seeing happen in our channel mix, more growth in direct, our direct channels particularly our web direct channels, and third quarter flat on OTAs.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

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

Q

Hi, good morning. Thanks for taking my question. Just one from me, just on the ownership assets, they performed pretty well in the third quarter from a RevPAR standpoint and year to date, I believe most of these are flagship Hiltons in Europe. Is this strong performance really just kind of a product of, Chris, what you were talking about a strong group traveler in Europe or is there anything else? And if your outlook, as you mentioned, for Europe is positive in 4Q and going forward, is there any reason why these assets should kind of come down below the M&F RevPAR? Thanks.

Kevin J. Jacobs
Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, Chad, I'll take this one, I mean, interesting that there are a bunch of flagship Hiltons in Europe that are part of that portfolio, there also are bunch of hotels in Asia that are part of the portfolio. And even though Japan has a little bit of disruption from a typhoon, the RevPAR growth was still quite strong in Japan and a couple of other places in Asia. So you're seeing some of that sort of filter through that portfolio, but Central Europe, of course, was quite strong in the quarter, which helped. And the trends ought to be really consistent in the fourth quarter. It's a very similar outlook.

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

Q

Okay, thanks. That's all from me.

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

A

Sure.

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

Hey, thanks for the question. I think it's been a little bit of time since you've updated us on the Hampton Inn rollout in China. Can you just give us an update on signings and openings for the year?

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

A

Yeah. Our Plateno deal is going really, really well. I think, at this point, Jill and Kevin can fact-check me, I think we've done 250 deals-ish. I think we have opened 50. I think we expect to open like 20 more by the end of the year. I think we're hoping that we have about 70 opened and I think we expect to open 100 next year. So it's moving at a great pace. It's having the impact that we want, which is building our network effect in China in secondary and tertiary cities with what is a great product, with a great partner.

Importantly, because if we don't deliver results, people, as I say, stop building us hotels. The performance of the hotels is really, really strong in terms of the returns that our partners are getting on these deals. So we feel very good about it and think it's going to keep cranking.

If you think about what's going on in China, I've said this many times, not dissimilar from other parts of the world, the mid-market is where you're going to see the bulk of the growth, just because the phenomenon of middle class growth at a very high rate, middle class can afford mid-market type brands. And that's why we were so interested to get in with Hampton with a partner to try and build that network as fast as we could and it's working.

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

And just a quick follow up, given some of the M&A that Jin Jiang has been involved with, has that affected your relationship with them or the development agreement in any way?

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

No, it hasn't. We maintain a great relationship. We are in constant dialogue with them about a whole bunch of different things, including the Hampton relationship. I think it's the one that they are very positive about and, if anything, interested in speeding it up, as are we, not in any way changing it or slowing it down.

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

Thanks so much.

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

Yeah.

Operator: The next question will be from David Katz of Jefferies. Please go ahead.

David Katz
Analyst, Jefferies LLC
Q

Hi. Good morning, all.

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

Morning.

David Katz
Analyst, Jefferies LLC
Q

Congrats. It all seems quite clear that we're two minutes away from the hour, but I wanted to just touch on one topic, which is your high-end strategy. The portfolio of brands is obviously very complete or nearly complete from top to bottom. How are you thinking about the highest end? I know you're adding Waldorfs and Conrads, et cetera in different places, but just go back to the make or buy discussion as it relates to that end of the business and the degree to which you can bolster through soft branding, let's say, but I'd love a little color just about that specific asset.

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

A

Yeah, that's a good and important question in the sense that we, if I think about how I allocate my time relative to the size of the business, I allocate disproportionate amount of time to luxury for a couple of reasons. One, it's hard. The deals are complicated and difficult, not many of them get done around the world. And it's important. It's important because, even though in the end I don't think luxury is going to be a whopping component of our bottom line EBITDA and free cash flow, it's important as a halo effect for our loyalty system and for our most loyal customer who want to be able to travel the road and be the road warrior and ultimately aspire to hit the Conrad in the Maldives or the Waldorf in the Maldives or the Waldorf in Bangkok, resorts and luxury hotels. Whether they use it or not, they want to dream about using it and so it is important and we spend a lot of time on it.

We started standing still 11 years ago. We pretty much had nothing really going on in luxury, a handful of assets you would call luxury. If you fast forward to today, we've worked very diligently with great discipline over time grinding it out organically. And today, with Conrad and Waldorf alone, and I'll talk about other things we're going to do, we have over 100 hotels open or in the pipeline. And that's with having taken some properties out that really don't fit the bill. There is probably a few more of those that over time have to happen, but the net of that will be more adding. The net unit growth in luxury will be positive because we have so many good things going on.

And if you think of about where we've been adding them in Beverly Hills, in Shanghai, in Beijing, in Amsterdam, our deal in London, just announced deal in Miami, another important one coming in the United States and I could go on and on. I think we're making a tremendous amount of progress. We've got 64 open. We've got 38 in the pipeline for both brands. And these are really word class luxury assets that are resonating unbelievably well with our customers. That's why we're having such great growth – part of the reason we are having great growth in Honors, more Honors occupancy. All of this is connected together.

We have a couple other pistons that will start firing, one soon, the other probably in the next year or two. The one soon is soft luxury. Again, it's not going to be hundreds of hotels. I guess it could be over time. But it will certainly add to the luxury side of business. And then we will eventually do luxury lifestyle. We have chosen not to do it because of other opportunities. And we can only do so much at one time, but ultimately, we will have a luxury lifestyle brand as well. And those two incremental brands, I think, will take what is already a very good story with Waldorf and Conrad and growth and quality of the properties and size of the system and add to it.

If you said to me like in a perfect word, you could just go out tomorrow and fix it, if I could have done that 11 years ago, it would have been a lot easier, but it's not. The practical reality is it's not really possible, because back to my comments on M&A, the things that you could make available don't really funnel through our filtration system. They either have their own problems as a brand or the economics of it would be such that you would destroy a lot of value and so, while we've looked at lots of things, honestly, none of them have made sense. And we are quite confident, I underline confident particularly today after 11 years of hard work and we have really good trajectory on luxury that we're going to a good place that we have enough scale and presence.

It is not only not holding us back but look at the overall network effect we've created. We've got highest average market share across all of our brands of anybody in the industry. So here's the thing, it's working. We got to keep it working, which is what we get paid to do and we will but it's working. And so we will keep grinding it out. And five and 10, not even, over the next three or four years, you'll continue to see some really important hotels and advances in the upper end of the business for us.

David Katz
Analyst, Jefferies LLC

Q

Thank you. And if I can just follow-up on one other segment, obviously you think it's important enough to look at the all-inclusive segment as it is today based on what you've done, but is that a segment that you could envision broadening across different price levels over time? How big an opportunity do you think that particular segment is or is this just a good to have because it was available to you?

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

A

I think it's a pretty important segment. I think it's big but it's not gargantuan in the sense that it's only really applicable at the moment in certain micro markets around the world. So I think it's important when we talked to our – the reason we did the deal with Playa because they're very good at it. And we've had a long relationship there and I've had a long relationship with Bruce. We did a lot of work with our customer base and they said this is something that we want. Again, it wasn't overwhelming like every customer – but there was enough of our customer base that said they wanted it and you can do it enough places with high quality product that we thought it was important to do.

Whether you do it across a bunch of different price points, I think that's unclear, I mean, I think it's all resorts sort of in the upper upscale, could you go upscale. Possibly at the moment we are really focused more on the upper upscale. We do think there are a bunch of other markets that we are not in that we could do it and I do think it's a decent size opportunity but not, as I said, not a gargantuan opportunity.

And we will look – currently, we are doing it with sort of as an extension of our core brand at the moment Hilton. We will look at whether as we get into it, if we think there is enough opportunity to sort of create effectively its own presence, create a independent or an extension of the Hilton with a real brand name to it as opposed to just being part of the Hilton system, but it's premature for us to judge that.

We are very pleased with where we are. We think it makes, it adds to our growth, it adds to our profitability and it's one more weapon in our arsenal to please a certain segment of our customers who want to stay there and earn points. And importantly they want to redeem at certain types of resorts and the all-inclusive environment is an environment that enough of our customer says they want that we thought it was important that we were present.

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

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

Thank you, everybody. We went a little over time. Appreciate everybody sticking with us. We look forward to catching up with you to discuss the end of the year and give a little bit more detail on what we think is going to happen next year on the bottom line on our next call. Hope everybody has a great day. Thanks.

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