

**Hilton Worldwide Holdings,
Inc.**

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Q1 2018 Earnings Call
Event Type▲Apr. 26, 2018
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— PARTICIPANTS

Corporate Participants

Jill Slattery – Vice President, Head of 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

Bill A. Crow – Analyst, Raymond James & Associates, Inc.
Harry C. Curtis – Analyst, Nomura Instinet
Stephen Grambling – Analyst, Goldman Sachs & Co. LLC
Joseph R. Greff – Analyst, JPMorgan Securities LLC
Anthony F. Powell – Analyst, Barclays Capital, Inc.
Robin M. Farley – Analyst, UBS Securities LLC
Patrick Scholes – Analyst, SunTrust Robinson Humphrey, Inc.
Shaun C. Kelley – Analyst, Bank of America Merrill Lynch
Thomas G. Allen – Analyst, Morgan Stanley & Co. LLC
Smedes Rose – Analyst, Citigroup Global Markets, Inc.
Wes Golladay – Analyst, RBC Capital Markets LLC
Michael J. Bellisario – Analyst, Robert W. Baird & Co., Inc.

— MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Hilton First 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.

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

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

Thank you, Nicole. Welcome to Hilton's first 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 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.

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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 ahead. 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.

Thanks, Jill, and thanks everyone for joining us this morning. We're happy to report a great start to the year. Results were better than expected with RevPAR, adjusted EBITDA and EPS all exceeding the high end of our guidance. Out-performance across all major segments and geographies contributed to the strong quarter and our results continued to demonstrate the strength of our simplified fee-based business model. With the solid top-line performance and a model that requires low levels of capital to grow, we continued to generate strong free cash flow, allowing us to execute on our capital return strategy.

Earlier this month, we repurchased 16.5 million shares from HNA Group in connection with their secondary offering. With this offering, they have now fully exited their investment in Hilton. Year-to-date, we have returned over \$1.3 billion to shareholders through buybacks and dividends. This morning, we raised our full year capital return guidance range to \$1.7 billion to \$1.9 billion, or approximately 7% of our market cap.

Turning to results, in the first quarter, system-wide RevPAR grew 3.9%, nearly 200 basis points above the midpoint of guidance. Upside was driven by U.S. and international markets, with out-performance across all three major segments: corporate transient, leisure transient, and group. Trends generally accelerated versus last quarter, boosted by improving economic growth and increasing international inbound travel to the U.S., which was up 9% in the quarter.

Group bookings, which provide some visibility into forward-looking trends, also suggest the positive momentum from the fourth quarter of last year is continuing into 2018 with new demand and improved conversions driving a 20% increase in first quarter bookings for all future periods. In the quarter, food and beverage revenue growth of roughly 6% exceeded RevPAR growth and outpaced expectations given better group business and increased spend. Booking windows continue to lengthen and group position remains up in the mid-single digits for the year.

Recent forecasts for U.S. GDP growth and non-residential fixed investment have accelerated versus prior estimates, which should provide further favorable fundamentals. Given this set up, we're raising our full year RevPAR guidance a 100 basis points to 2% to 4%, with the likely result more in the 3% to 4% range.

We are also seeing continued positive momentum with development. We ended the first quarter with 355,000 rooms in our pipeline, representing 41% of our existing base, the largest percentage in the industry. When completed, we estimate our pipeline will generate more than \$700 million of stabilized, annual adjusted EBITDA. For the full year, we continue to expect net unit growth of approximately 6.5%. With nearly 45% of estimated openings located in international markets, we expect to increase our international room supply more than 10% by year-end, led by the Asia Pacific region where we estimate portfolio growth in the high teens.

China continues to be an important driver of our success in the region. On average, we sign a new hotel in China every three days, and Hampton has the fastest growing pipeline across all

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international hospitality brands in the country. The market represents approximately 4% of our existing supply, but 24% of our pipeline, with a large majority already under construction.

Elsewhere in the region, we also expanded our partnerships with leading local developers. In India, we continue to grow our pipeline, which will more than double our presence in this critical market over the next few years. In the quarter, we opened the Conrad Bengaluru in India. The 285-room luxury hotel is conveniently located in the central business district and offers world-class dining options and the largest meeting and event spaces in the city.

In the Middle East and Africa region, our pipeline stands at 130 hotels, totaling approximately 34,000 rooms. During the quarter, we celebrated notable openings from Saudi Arabia to Sub-Saharan Africa to Egypt where we raised the Hilton flag over the Hilton Cairo Heliopolis and converted the hotel's luxury tower to Africa's first Waldorf Astoria. We look forward to celebrating additional openings throughout the year, including welcoming our first Hampton to the Middle East, an important milestone as we work towards our goal of tripling our footprint in the Middle East in the next several years.

Our pipeline in Europe composes nearly 200 hotels and 31,000 rooms, and we continue to identify opportunities across both new and existing brands. In the first quarter, we opened the Hilton Lake Como, marking our first property in the area and demonstrating our commitment to expanding an iconic and exciting resort destination. We also began development on our first Canopy in continental Europe, which is scheduled to open in Croatia's capital, Zagreb, later this year.

We recently welcomed our newest addition to the Canopy Brand, a little closer to home. The Canopy Washington, D.C. Bethesda North opened in March to tremendous support from the local community and exceptionally positive feedback from guests.

In U.S., more broadly, Tru and Home2 continue to lead our development story, accounting for more than a third of our expected U.S. room openings this year. In the quarter, Tru expanded its footprint to include eight more properties in six new states, with more than 500 hotels open and in various stages of development. Home2 added nearly a dozen new properties to its portfolio in the quarter for a total of 215 trading hotels and a pipeline that will double its size in just the next few years.

In the first quarter, we added more than 3 million new Honors members, up 26% year-over-year. This brings our total program to 74 million members who now drive 59% of system-wide occupancy, up 220 basis points in the quarter. We're always exploring new ways to serve our guests through enhanced technology and customer experiences. Scaling Digital Key continues to be an important part of that effort. More than 3,100 properties and 512,000 rooms, or approximately 60% of our global system, are now enabled with the technology to allow guests to open their doors using their smartphones. Our guests have unlocked 6.7 million doors using Digital Key.

We also recently rolled out customer-centric pricing in the U.S., a new pricing structure that provides added flexibility for those who want it and cost savings for those who don't. We anticipate this new pricing model will reduce the number of last minute cancellations and maximize the number of guest rooms available. Customer-centric pricing will be available at all properties globally later this summer.

Overall, we're very pleased with the strong start to the year and optimistic on the set-up going forward, as solid economic growth, combined with our industry-leading brands, robust development pipeline, and capital-light model should continue driving strong operational performance and shareholder returns.

Before I turn the call over to Kevin, I want to thank all of our team members for their continued hard work and dedication in making us one of Fortune's 100 Best Companies to Work For, marking our

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third consecutive year we've been included on the list. We were also named one of the World's Most Ethical Companies by the Ethisphere Institute, highlighting our commitment to leading with integrity.

I'll now turn the call over to Kevin to give a little bit more details on our results in the first quarter and the outlook for the rest of the year.

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

Thanks, Chris, and good morning, everyone. In the quarter, system-wide RevPAR grew 3.9% versus the prior year on a currency neutral basis, exceeding the high end of our guidance range. Both rate and occupancy drove performance with particularly strong demand at our international hotels. We estimate weather related benefits partially offset an 80-basis-point drag from the Easter calendar shift.

Adjusted EBITDA of \$445 million also exceeded the high end of our guidance range, increasing 9% year-over-year. We estimate that roughly one-third of the beat versus the midpoint of guidance came from timing items that will reverse later in the year, with the balance primarily driven by our RevPAR outperformance. As a result, our diluted earnings per share adjusted for special items of \$0.55 also exceeded expectations.

In the quarter, management and franchise fees grew 12% to \$463 million, outperforming our 8% to 10% guidance range. RevPAR gains and license fee growth largely drove better than expected results. Our owned and leased portfolio performed in line with expectations, as softness at certain European properties muted the benefits of strength in Japan.

Turning to our regional performance and outlook, first quarter comparable U.S. RevPAR grew 2.8%, boosted primarily by solid leisure and corporate transient demand. Growth also benefited from prolonged hurricane-related business. For full year 2018, we forecast U.S. RevPAR growth in the lower half of our 2% to 4% system-wide range. In the Americas outside the U.S., first quarter RevPAR grew a solid 7.3% versus the prior year, exceeding expectations given strong leisure trends across Canada. Continued hurricane-related business also aided performance in Puerto Rico. For full year 2018, we expect RevPAR in the region to grow in the mid-single-digit range.

RevPAR in Europe grew 7.1% in the quarter, roughly 100 basis points higher than our expectations, driven largely by broad strength in group business and continued recovery in Turkey, but tempered by weak leisure and corporate demand in London. We expect full year 2018 RevPAR in Europe to grow in the mid-single digits. In the Middle East and Africa region, RevPAR growth was up 5.3%, given rebounding demand in Egypt and better oil-related business in Kuwait. For full year 2018, we expect RevPAR growth in the region to be near the high end of our guidance range.

In the Asia Pacific region, RevPAR increased 11% in the quarter, driven by strong transient and group performance, particularly across key cities like Beijing, Hong Kong and Tokyo, as well as a ramping hotels, which we estimate contributed nearly 300 basis points to growth in the region. The shift in Chinese New Year to earlier in the quarter also boosted results. For full year 2018, we expect RevPAR for the Asia Pacific region to grow in the high-single-digit range with RevPAR growth in China of 10% to 11%.

Moving to guidance, for full year 2018, we expect RevPAR growth of 2% to 4%, and adjusted EBITDA of \$2.06 billion to \$2.1 billion, representing a year-over-year increase of 9% at the midpoint. We forecast diluted EPS adjusted for special items of \$2.62 to \$2.71. For the second quarter, we expect system-wide RevPAR growth of 3% to 4%, including an 80 basis point benefit

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from the Easter calendar shift. We expect adjusted EBITDA of \$530 million to \$550 million, and diluted EPS adjusted for special items of \$0.66 to \$0.70. 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 first quarter, for a total of \$47 million in dividends and more than \$1.3 billion in total capital return year-to-date. As Chris mentioned, this includes our nearly \$1.2 billion share repurchase from HNA. Our board also authorized a quarterly cash dividend of \$0.15 per share in the second quarter. For 2018, we expect to return between \$1.7 billion and \$1.9 billion to shareholders in the form of buybacks and dividends.

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. We would like to speak with all of you this morning, so we ask that you limit yourself to one question and one follow-up related to your question.

Nicole, can we have our first question, please?

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Bill Crow of Raymond James. Please go ahead.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Hey. Good morning, folks. Chris, going back to your commentary and certainly your guidance, it seems to have – your confidence in 2018 seems to improve. And I'm just wondering if this is just a follow through from fourth quarter, when we saw some better activity, or was there something that was really tangible that you saw in both transient and group business that has driven this confidence?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah, Bill, good question. I think that's the \$64,000 question. Probably we'll get it multiple different ways. Yeah, if you go back to our last call, I think I was reasonably optimistic there, and that was based on the fact that during the fourth quarter, we were starting to see trends that were picking up, both – you had seen leisure transient trends remain strong. While it was choppy, we were starting to see business transient trends showing signs of life in our group pace and position for the year before it started to pick up. I'd say my increasing optimism, which I think you're reading right, is based on the fact that the trends that we saw in the fourth quarter continued into the first quarter, and I would say strengthened.

So, breaking the business down into the three major components, leisure transient continue to be strong. Some of it due to the Easter shift and the like, but frankly it was incredibly strong. Business transient, we saw it pick up and stabilize at a higher level. So, while it was choppy in the fourth quarter, it was less choppy, more consistently better. And group continued both, what we're seeing, in pace and position to be strong. So, I think there what we were starting to see and hoped would solidify from fourth to first quarter, we did see. And I think there are a lot of reasons behind it. I think the key reason is what we talked about then, and what we're seeing now, is I think broader macro strength. If you look at all of the data out there, consumer confidence is at very high levels. Business confidence has been increasing and is at reasonably high levels.

In a post-tax reform world, you have more money in consumer's pockets, a lot more money in business's pockets. You have a regulatory environment that is more stable. I'd say both in tax and regulatory policy areas, people have a little bit more visibility, a little bit less uncertainty, and that's, in part, what's driving the confidence. And, as a result, you're seeing both consumers on a leisure basis and businesses on a business basis, hire more, spend more, which is driving more demand in our business. So, the question is, for how long and what trajectory it takes, it's early in the year.

So, obviously, our optimism is showing up in our increase in guidance at 2% to 4%, but really, if you listen to my comments carefully, I said 3% to 4%, which is a pretty good improvement. So, I think it's showing up there. And we're pretty optimistic that these trends that we see short of something significant that's unanticipated, will continue for a period of time.

<Q – Bill Crow – Raymond James & Associates, Inc.>: That's helpful, Chris. And my follow-up question, hopefully it's a quick one, is that your performance in the first quarter was weaker than the U.S. overall results. And I think it is probably a weighting issue between luxury and economy within your portfolio. Correct me if I'm wrong, but does it...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. I will correct. I think you're wrong.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Does it change the way you think about your presence in the luxury space and maybe the resort space? Is there more urgency to increase your presence there?

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<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Well, we've always – let me answer the first and the second. I think your assumption is right. It is weighting. If you weighted for our portfolio, we actually beat by, I think, 70 basis points. We were higher on a weighted basis, not lower. The answer to the question on do we have an urgency on increasing our presence in luxury and resorts, of course we do. We have had that urgency for the better part of the last decade and I think we're making tremendous progress both in luxury and in our resort portfolio. But that's an effort that will continue for many, many years to come. Recognizing that quarter to quarter and year to year, by the way, all of the data-shifts has between segments, sometimes the high end is driving it, sometimes it is not. But the reason that we have a very heavy focus on luxury and resorts is just longer term, from the standpoint of having aspirational products in our system for Honors members. We think that it's beneficial. We're in a really good place now. We're open and in the pipeline between Waldorf and Conrad, we have 100 properties and representing almost every major urban and resort destination we want to be in. There are a few gaps that we've been working on. But we have made, I think, tremendous progress in those areas over the last bunch of years.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Thanks. I appreciate the time.

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

Operator: Our next question comes from Brian Dobson of Nomura. Please go ahead.

<Q – Harry Curtis – Nomura Instinet>: Hey, good morning. It's Harry Curtis. Some technical issues here.

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

<Q – Harry Curtis – Nomura Instinet>: Yeah, hey Brian. Chris, could you maybe a little bit of more color on Bill's question. As you talk to the CEOs of your customers, what are they saying about how they've loosened their travel budgets? And have you – and they seen – you've seen several cycles. So, how does this differ versus ones that you've seen over the last 20 years?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I'll take it in that order. Definitely, and I've been talking with a lot of our customers lately, just because we've had a bunch of different customer events, large and small, and some of our most important largest customers have been quite willing to share their views. I would say, I think that their overarching – I sort of described it in the prior answer, their overarching view is that they're more optimistic. They ultimately are spending more, they're ultimately hiring more and they're feeling better. And I think they feel like they have more visibility in some very important areas that were hanging out there, regulatory and tax, there was a serious lack of clarity on where those things were going over the last bunch of years. So, I think they're feeling good and they are definitely both traveling more in a transient and a group context, and they're spending more.

It's at the food and beverage numbers I gave in the prepared comments because I think that's an important note. It's only one quarter, obviously the trends have to start somewhere. But I think it is reflective and as I talked to our teams and I talked to CEOs of – that run a bunch of the companies that are big customers of ours, clearly that confidence is translating in them letting sort of the loosening up on the purse strings. If you talk to the folks in the hotels as the big groups are coming through, people are just spending more on individual events, they're doing more individual events, they're doing coffee breaks that they might have cut out, lots of examples.

But, again, it's the quarter, but it's what I think is the beginning of a good trend of the confidence in the business community, translating into higher spend. One of the things that I look at, as I've talked about many times, is non-residential fixed investment. And I mentioned it in the comments. If you look at what's going on with those numbers, those numbers are – year-over-year growth rate is

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estimated to be up pretty materially, close to 6%. Again, reflective of the fact that corporate America and for that businesses, small, large, medium, are making more investments in plant, equipment, technology, and the like, all of which is great for our business, because it's a very high correlation to demand growth for hotel rooms.

So, I don't want to be too much of a Pollyanna, but I'd say, vis-à-vis, if I were talking to these customers a year ago, it was a very different conversation. I mean, they weren't jumping out of buildings, I mean, but they clearly were not as confident as they are today. I mean, it was a fairly stark contrast in conversations today versus a year ago.

In terms of the cycle, I mean, I think this has all been pretty well chronicled, but there are some differences. I mean, obviously this cycle has been a lot longer, which I know sort of worries everybody. I'm not sure that it should necessarily. I mean what's happened is it's been a longer cycle, but a much lower growth cycle. If you've look at the RevPAR growth that we've had, and even in our best years and particularly after coming out of one of the greatest recessions, one of the biggest dips in the history or the biggest dip in the history of the business, you would argue it was sort of anemic annual growth. So it was longer, but lower growth.

I think that was driven, as has been well chronicled, by just more modest macro growth. You never had big GDP growth years coming out of the great recession. So the economy never really got overly juiced. The financial markets were incredibly disrupted in the great recession, historically so. So they did not provide coming into the recovery a lot of capital for growth of new units. So even though you've had reasonably tepid macro growth, you've had historically low levels of supply that are now, I would argue, 2018 is the peak year in the U.S. for supply, which will peak at the long-term average, which is lower than any peak I can remember in my history. And I think when you look at like 2019 numbers actually you're going to see most forecasts and ours agree with this, suggest that for the full year 2019, supply is going to go down back below the long-term average. So I think that's been helpful.

You've had multiple re-accelerations, two or three depending on how you look at it. In terms of RevPAR growth. Again, a little bit different. We've had re-acceleration in prior cycles, but I think sort of the anemic nature of this recovery has created a little bit higher beta experience when you're at lower levels of RevPAR growth and things are moving around in the economy, it's created slowdowns and slower periods and acceleration periods.

I do believe that in the end, the laws of supply and demand are alive and well. And what we're seeing right now is an acceleration that I think is reasonably sustainable just based on the underlying macro trends that I've covered in a couple of different ways already on the call. And how long that goes on is hard for me to say. I don't have that crystal ball. But as I said, it feels reasonably sustainable, meaning you do not have a supply issue and demand which will follow. Macro growth indicators feels like it is picking up, both in the U.S. and around the world, not like a rocket ship but picking up, and it feels like we have a decent sort of foundation for a reasonable period of time of sustained economic growth, which will support the business. So I think you could have a period of at least a couple of years of good same-store results. I think beyond that, I don't know. It's not that we couldn't. It's just hard to prognosticate that far out.

<Q – Harry Curtis – Nomura Instinet>: Chris, thanks. That does it for me.

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

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

<Q – Stephen Grambling – Goldman Sachs & Co. LLC>: Hey, good morning. I guess following up on the answer to that last question, looks like you have about \$150 million to \$350 million of

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remaining buyback left in the total distribution over the remainder of the year. I guess, in a backdrop where you feel like you might get a little of an extension, how are you thinking about deploying that outstanding buyback? And as a follow-up, if the market does strengthen further, does that change how you think about either the deployment near-term or your target leverage ratio? Thanks.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah, Stephen, it's Kevin. I'll take this one. So, I'd say, yeah, you're thinking about it the right way. We've done \$1.2 billion of buybacks so far. So if you go \$1.7 billion to \$1.9 billion, less the \$200 million dividend, that gets you to \$1.5 billion to \$1.7 billion. So \$200 million to \$400 million left to deploy for the rest of the year. And, look, that could vary a little bit based on market conditions, but I would say, generally speaking, we would expect that to be pretty even over the balance of the year. And as we told a lot of the folks that we talk to around the HNA offering, we expect to be in the market kind of always, right. And so, in answer to the second part of your question, the way we think about capital return is consistent, and nothing that happens opportunistically is going to change the way we think about capital return more broadly.

And, on leverage, I think you asked about leverage. The range of leverage that it would have us at on the guidance range is 3.25 to 3.35 times, and that's by the end of the year. At spot today, we're a little bit over the range we've given in the past of 3 to 3.5 times. But, by the end of the year, we'll be comfortably within the range, given the range of buybacks we've given you.

<Q – Stephen Grambling – Goldman Sachs & Co. LLC>: Helpful. Thanks. I'll jump back in the queue.

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

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

<Q – Joe Greff – JPMorgan Securities LLC>: Good morning, everybody. I don't think you answered this question specifically the way I'm asking it, hopefully. Good morning, everybody. Good quarter. But, Kevin, you mentioned before, the U.S. you would expect RevPAR growth of 2% to 3% for the full year. And within that band, how do you see business transient growth relative to group and leisure transient?

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah. So good question. I think we said lower half, right, which implies 2% to 3%, as you're right. And I would say, business transient was a little bit better in this quarter than it had been in prior quarters, and we expect that to continue. You heard Chris say in his prepared remarks that we see group positioned in the mid-single digits. So that probably realizes at the end of the day to the middle or upper end of the range. We expect leisure to be sort of middle or upper end of the range continued. So that, mathematically, would suggest that business transient would be sort of in the lower half of the range, kind of consistent with our overall U.S. guidance. And it does drive a half or more of the results in the U.S. So that already...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Recognizing there is potential if things continue on the current path for upside in that 1% and 2%. If you really cleanse last year 2017 of all the noise of holidays and the hurricanes and the like, business transient was pretty much flat to up 0.5 point. So pretty materially better in business transient than what we've been experiencing.

<Q – Joe Greff – JPMorgan Securities LLC>: Great. And then so the 100 basis points of RevPAR growth guidance change versus three months ago, is it even across the three segments or is it more group and leisure versus business transient?

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<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I think it's even. I think if you look at the numbers on the beat in the first quarter, if we look at expectation in our forecasting, which we do hotel by hotel all around the world to aggregate it to our new forecast, I think it's across the board. We think leisure is going to be better than we thought a quarter ago. Business transient is going to be better than we thought. Maybe group a little bit. Maybe we were pretty optimistic on group, honestly, because the position was pretty darn good. So we still feel good, even a little bit better about group. Probably the upside in there is less because we were already factoring for that, but upside definitely in business transient from where we were and leisure transient.

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

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

Operator: Our next question comes from Anthony Powell of Barclays. Please go ahead.

<Q – Anthony Powell – Barclays Capital, Inc.>: Hi. Good morning, everyone. I know it's early, but your new credit cards have been in the market for a few months and they have been well received by the travel community. Have you seen more spending on the cards? And do you think you may be able to get higher fee growth from those cards than you originally forecasted?

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah, Anthony, it's Kevin again. Yeah, look, your assessment of both, the fact that it's a little early and that the cards have been well received, is accurate. I mean, we've been getting great traction on social media and otherwise in terms of customer feedback about the cards. But it is early days, right. So we expect those cards to be successful and to drive customer engagement and better performance in the hotels and ultimately market share, but it's a little bit too early to say whether the trajectory of what we thought on license fees will be higher than what we've said in the past.

<Q – Anthony Powell – Barclays Capital, Inc.>: Got it. Thanks. And could you go into more detail about the customer-centric pricing? How that differs from some of the things you tried in the past with longer cancellation fees and member discounts, and what impact do you think that could have on your ADR growth?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I mean the idea behind – we've talked about it on a bunch of calls now, we're rolling it out, and by the summer it will be globally rolled out. I think the idea, not unlike other industries, including the airline industry, being a decent model in this regard, is to give customers choice. And instead of having it be a stick, have it be more of a carrot that if you want more flexibility, you're going to pay a little bit more for it, but we'll give you that option. And if you don't need as much, which a lot of customers don't, we'll give you a little bit of an incentive to let us know, so that we can manage our inventory better.

So, essentially, what we did was, in a grossly simplified way, is we took what used to be BAR, Best Available Rate, we got rid of that, and we created a fully flexible rate that's higher than the old BAR by a few percentage points. So still, we can tweak these things in lots of different ways and we will continue to tweak these. And then we created a semi-flex product that gives you two to three days generally, where we get two to three days incremental notice on a cancellation beyond our new cancellation policy. And you get circa one or maybe a little bit better discount for allowing us to have that information.

We expect that it will materially, based on the testing and we tested this at gobs of hotels, not a few here and there, but hundreds of hotels, that it will reduce cancellations, and we do think that the behavior that we saw in the test will give us a little bit higher ADR, that it will give you a little bit of RevPAR boost. I don't want to get ahead of us. Let us get it rolled out. But it's not the underlying reason that we've done it. We've done it to give customers more choice and to be able to manage

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inventory better and further reduce cancellations beyond extending our typical cancellation policies. But we do believe it will give us a bit of a ADR and RevPAR boost. I would say modest, but let's see how it goes and we'll report out as it happens.

<Q – Anthony Powell – Barclays Capital, Inc.>: Got it. Thank you.

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

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

<Q – Robin Farley – UBS Securities LLC>: Great. Just wanted to ask two things about the guidance. One is that the fee growth rate is a bit lower in Q2 versus full year, and I don't know if that's just timing of some one-offs that you're comping from last year. And then also you're guiding to a RevPAR growth in Q2 similar to the rate in Q1, although in theory you'd have the benefit of the Easter holiday shift. So perhaps you're just being conservative. But also wondering if maybe you're thinking that there's going to be less of that hurricane demand in Q2. Is that offsetting the Easter benefit and sort of leaving your growth rate similar to Q1 for that reason? Thanks.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah, sure, Robin. On the fee growth, it's as you thought. It's timing. I mean last year when we signed – it's timing on a couple of different fronts. But one of the big drivers is last year we signed the Amex credit card deal in the second quarter, and there was a catch-up on the remuneration because the pricing was retroactive to the full year, so just a little bit of a year-over-year headwind there. So nothing much else going on there.

On RevPAR, yeah, I mean, basically, we gave the guidance of 3% to 4% in our official guidance, which by definition is higher than our 2% to 4% range. I think you're responding to the fact that Chris is guiding us to the top end of the range, which probably suggests that you take the over on the full year a little bit if you had to, right. So the Easter benefit does flip over, which is why we gave 3% to 4% as the stated guidance. And there probably is a little bit of slow down as the hurricane-related business dissipates. But generally speaking, as we've said, it's not that much different. Group is a little bit stronger in the quarter, which is helping as well. But generally speaking, there's no different trends from second quarter versus the balance of the year.

<Q – Robin Farley – UBS Securities LLC>: Okay. Great. Thank you.

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

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

<Q – Pat Scholes – SunTrust Robinson Humphrey, Inc.>: Hi. Good morning.

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

<Q – Pat Scholes – SunTrust Robinson Humphrey, Inc.>: With the positive trends you've been seeing both on the RevPAR and in the economic indicators, does this change at all about how you think about delivering net unit growth over the next few years? How you think about delivering net unit growth over the next few years? And I had my notes last quarter, you were talking about 6% to 7%. Any changes in that thought?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I hate to make it too short, but I think we're still comfortable, very comfortable for the next two or three years in the 6% to 7% zone. I mean, could that change? Of course. I mean, what would need to change? Probably the re-acceleration of fundamentals in the U.S., ultimately trickle through to the financing markets which

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open up to more development, which ends up allowing us to continue the strength that we're seeing overseas and the U.S. sort of turns around and picks up.

That certainly could happen, Pat. We haven't seen it yet. If you look at what's going on in the lending community, it's been generally in the U.S. sort of tightening. I'd say it, throughout most of last year, there was a tightening. Now it's fairly stable. If the fundamentals stay strong for long enough, I suspect that will flip around. But there's a long gestation period associated with that. Which is why I said in earlier comments, I think the peak in the supply cycle in the U.S. is probably this year, when you look at it statistically. So, again, it's – not to be too long-winded, it sort of depends how long this re-acceleration lasts. It could naturally trickle through, but it will take some time. But we're pretty confident in the 6% to 7%, and we think those are good numbers.

<Q – Pat Scholes – SunTrust Robinson Humphrey, Inc.>: Okay. Thank you.

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

Operator: Our next question comes from Shaun Kelley of Bank of America. Please go ahead.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: Hi. Good morning, everyone. Chris, just to follow-up on that last point. I think, you gave some color in the prepared remarks about Asia Pacific and China, in particular, being a part of your pipeline. Any more color you could sort of share with us a little bit on how your – specifically your franchising initiative with Hampton is going? Or how much of that pipeline is coming from, let's call it four and five star managed versus franchised over there, since it's such a big part of the growth that you're seeing?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I mean, we're – I mentioned, as you said, in some of the prepared comments that we've got a big chunk of our pipeline is in that market. 24%, I think, with a bulk of it under construction. It's a mix, but increasingly the mix is going towards the mid market. I've been pretty well chronicled in saying that that is a major trend there and pretty much every other part of the world, just as you have middle classes continuing to emerge around the world, that the mid market is what they can afford. And so you incrementally are seeing more demand growth in that segment. And obviously we want to be able to serve all customers, wherever they want to be, for whatever need they have. And that is increasingly one of the major areas where we can serve customers.

So we went from, if you look at it five years ago, and I think fairly consistently with the industry. But I think we've been ahead of the curve, honestly, on the mid market in Asia Pacific, and particularly China. We were probably doing 90% upper upscale and above in China five years ago. If you look at it today, I would say it is probably 75%/25%, something like that. 75% meaning mid-scale versus upper upscale and above. I think that is absolutely reflective of what is going on in the market with demand. And China, like everywhere else, is reverting to the mean in that – in the sense of what's getting developed is what makes economic sense. Where if you go back five and ten years ago a lot of what was getting developed was, in effect, part of an infrastructure spend, where the economics didn't really support it.

So, the good news is we're growing across the board. We've got great luxury stuff opening in China, tons of Hiltons, DoubleTrees, we've got Embassy coming. But when you wake up in five and ten years, Hampton particularly and Garden Inn, and ultimately other of our focused service brands will be where we have the massive sort of – where we've been able to create the network effect. We're well over 200 deals done with our master franchise relationship with Plateno. We're talking to them in lots of different ways about expanding that relationship. More to come on that. But I think it, given that Hampton with Plateno is the fastest growing of the international brands in pipeline in China, I think that alone sort of supports the success we're having. And if you went and saw the properties, which, of course, I've done, and I recommend doing, they're fantastic properties.

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They're doing a wonderful job in terms of what the product is, in terms of delivering service, and helping us build our network out in China. So, we have had great success. We have really – we're very optimistic about where things are going with Plateno and Jin Jiang.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: That's great. And I guess, just as a follow-up, maybe to stay with the same theme. I mean, in terms of those deals, are they – we do know that a lot of three-star hotel build out in China is conversion activity from other types of real estate. They tend to be these sort of structured lease deals. Is the stuff that you're doing, is it more purpose built? Is it kind of that four-star working its way down, right? But – or is it – are these conversions, things you're able to cycle through the pipeline more quickly?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: It's a mix. But I don't have the stats, to be honest. But if I had to guess at it, Shaun, I'd say it's at least 50%/50% adaptive reuse. I can – maybe I'll follow-up, we'll follow-up directly. But it's a big – a bunch of the ones I've seen and I know in the 200 plus deals we've done a significant percentage are adaptive reuse.

Now, they're typically, there are a few cases where they were hotels that never really got off the ground and got gutted and turned into a Hampton. So effectively purpose built as a Hampton because we're not letting them not follow the standards. But the bulk of those have been like other uses, like office buildings and other things that literally got built and essentially never used, they were built and there was really no demand. And so they're changing their change of use. But the product, if you went and saw it, again I – which I have is terrific. I mean, these are – when they're adaptive reuse of existing hotels or an office building, they are gutted and built to our exact standards for Hampton. And they've done a really very, very good job with the product.

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

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

<Q – Thomas Allen – Morgan Stanley & Co. LLC>: Hey. Good morning. So, in terms of the U.S. RevPAR growth and your outlook for it, how are you thinking about the variance between kind of the high end and low end properties, and then maybe different regions, I'm thinking more in terms of cities versus suburbs. I noticed that in the first quarter the STR data suggested you saw an acceleration in top 25 markets where it actually beat the rest of the country, when that was definitely the under-performer, historically. So how are you thinking about that? Thanks.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah, sure, Thomas. I mean, I'd say in terms of segment performance, top end luxury versus bottom end, our experience has not been that much different in the U.S. than overall. Although, as Chris pointed out, on a chain scale adjusted basis, we outperformed in the first quarter. So we took market share. And overall, most of the cities in the U.S., are starting to absorb – as I'm sure you know, are starting to absorb their supply and do a little bit better. In New York, you're absorbing supply. In San Francisco, you're coming through the Moscone Center renovations and things like that. And the hurricane-affected markets are obviously doing quite well.

Florida is doing really well because they're not only getting some hurricane demand, but lapping over Zika and things like that. So, I'd say generally we're performing in the same overall way. What you see in terms of our under-performance in the first quarter versus the broader STR result is simply weighting. So I'd say nothing, no anomalies in terms of the way we're performing in the U.S. versus overall, other than we took some share in the first quarter.

<Q – Thomas Allen – Morgan Stanley & Co. LLC>: Thanks, Kevin. I guess my question was more on the outlook. I mean, are you thinking that – one thing that stood out to me in your prepared remarks was just inbound U.S. travel was up 9% in the quarter. I mean do you think that that's

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going to drive strength in U.S. cities versus suburbs? And how are you thinking about chain scales in the same way?

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah, I'd say – sorry, the answer on the outlook, we don't have any reason to believe it'll be different than the first quarter. So, apologies for focusing on the first quarter. International inbound clearly is going to help. But keep in mind that it's 5% of our overall business. And in the cities, as you point out, is 20%. So it's clearly going to help New York, I think, international inbound revenue was up in the first quarter for the first time in two years. So, that's clearly helping the New York recovery and will with some of the other cities.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: The other thing, Thomas, that's helping in a bunch of suburban markets is oil and gas. So we're now finally starting to see everybody knows energy business has been picking up a lot of steam. Huge amounts of capital investments going in. Lots of energy, gas coming out. Oil and gas coming out of the ground and that's starting to flow through into the business. So we're now starting to see oil and gas markets are outperforming the broader markets. So, I think you have some good things going on in cities, with international. You have some good things going on in some of the suburban – outer suburban markets that are energy related. So fairly good news sort of across the board, I think.

<Q – Thomas Allen – Morgan Stanley & Co. LLC>: Helpful. Thank you.

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

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

<Q – Smedes Rose – Citigroup Global Markets, Inc.>: Hi, thanks. It looks like you reduced commissions on group bookings through third-party intermediaries. And I was just wondering if you could talk about the strategy around that a little more? Is that a relatively small piece of your overall group bookings? And does it signal that you're more confident in just, I guess, direct bookings through your own sales force?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: It's not an insignificant part of our overall group bookings. I think, Thomas (sic) [Smedes], as you might imagine, it's a delicate balance of trying to maintain – drive the business results, maintain great relationships with intermediaries that we want to have a good relationship with. But to serve our owner community well in terms of driving share and performance, but doing – driving it with distribution strategies that are cost-efficient. And so I think in part, yes, there's a confidence that we have in our ability to continue to drive group business. We obviously have great relationships with intermediaries. We want to continue to have a great relationship with them. But we also realize, representing our owner community that we need to continue – that you've seen huge increases in the percentage of group business that has an intermediary over the last decade. And that, in order to be responsible for the whole system, and to deliver profitability to owners, we need to drive efficiencies and this is a means to being able to continue to drive efficiencies and distribution costs.

<Q – Smedes Rose – Citigroup Global Markets, Inc.>: Okay. And then maybe just speaking – sticking with OTAs for – or commissions for a moment, I was just wondering, could you remind us when your next OTA contracts come up and what you're seeing in terms of overall bookings through the OTAs...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I don't think we actually disclose those things. But I will say, we are not in the middle of one, right now. We don't have any this year. So, assume maybe next year. I think, the strategy remains the same, which is we have a healthy relationship with the OTAs. When we negotiate our deals, sometimes they get a little dicey. But we have generally a healthy relationship, our focus with all the OTAs and there are a bunch of them

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that we work with, obviously, the two largest is about driving incremental business. And so, we've really tried to be intelligent in partnering with them and in structuring our deals with them to focus on the parts broadly. Every hotel, every region is different, but broadly focusing on distribution with them, where they can really add incrementality to the business in a reasonably cost-efficient way. And that is fairly typically with infrequent leisure travelers on weekends. Not always, but mostly.

And so all of the structure of how we're doing things is to try and bifurcate the business into pieces. Obviously, try and drive the best distribution cost outcome that we can, again, to represent our owner community and the system. But there are plenty of opportunities where we can work with OTAs and other intermediaries where we can drive incremental profitable business, and that's what we want to do. We have had a huge effort, as you know, and you're only going to see more investment and activity in the area of building – continuing to build more direct relationships with our customers. You can see that we continue to push hard on making sure that our customers get the best value proposition by being members of Hilton Honors, and that means they get the best price. That means that all the other things they get as a consequence of being a member of Honors, in terms of the experience and the like, is driving a value proposition. And you'll continue to see us market very heavily to people so that they know those things that they are getting at a better value and a better experience by dealing directly with us.

And ultimately, trying to drive as many people as we can in through our direct channels and, particularly, our app. And so, I've said many, many times, it's not that we don't want to have relationships with the OTAs, we do. We want those relationships focused in the areas of incrementality for us. And we want to have direct relationships everywhere else. And so, you will see from now until the cows come home that we're going to have an intense focus in both the value proposition and the marketing ends of building the direct relationships with customers.

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

Operator: Our next question comes from Wes Golladay of RBC. Please go ahead.

<Q – Wes Golladay – RBC Capital Markets LLC>: Hi, everyone. Just going back to China, the RevPAR there has been quite strong for a while. I'm just curious, how much of it is due to building the brand, signing up more corporates and using less OTAs, and is there a lot of runway to do the up-mixing?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I think, RevPAR performance in China has been good because China's economy is good. And both inbound business to China is strong. Travel within China is very strong. Chinese travelers make up the bulk of our business now in China, which is very different than a decade ago, and they want to see their country. They're traveling on business. Economic activity continues to be – GDP growth continues to be very strong in China. So, it feels good now. All indications, as we look at our business, suggest that it's going to stay strong. We clearly have a big new portfolio of hotels that are ramping up, and ramping up strong that is adding to it. But even if you take those hotels out, overall, RevPAR performance in China leads the world. So, things are very strong there.

Our market share in China, as a result of the relationships we have across the board with intermediaries, but most importantly, with our direct relationship having built out a terrific sales force ahead of sort of the curve of our size in China, our index there, our market share is very strong. Frankly, if you look at the first quarter, our market share in the major regions of the world are equal to what we see in the U.S., which has never been the case. So, the brands are performing around the world really well. Our commercial teams are performing exceptionally well. And the network effect that we talk about that for so long we've had here in the U.S. that we've been building elsewhere will continue to build. But if you look at it on a simple metric of market share, we have very comparable market share now in all the major regions of the world, which is wonderful to see,

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and obviously indicative of the strength, but also indicative of what's to come in growth. Because, in the end, owners are investing in our system for a very simple reason, that's to make money. The higher our market share in all parts of the world, the more people are going to sign up to build us hotels.

So, we're very excited to see the performance of the brands and commercial efforts in China, and around the world. They're going to help stimulate more NUG in the years to come.

<Q – Wes Golladay – RBC Capital Markets LLC>: Okay. And then a quick follow-up on the 59% of occupancy coming from the Hilton Honors members. Is that a North America stat or is that a global stat?

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

<Q – Wes Golladay – RBC Capital Markets LLC>: Okay. Thank you.

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

Operator: Our next question comes from Michael Bellisario of Baird. Please go ahead.

<Q – Mike Bellisario – Robert W. Baird & Co., Inc.>: Good morning, everyone.

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

<Q – Mike Bellisario – Robert W. Baird & Co., Inc.>: Some peers have broadened their reach to other travel platforms or experiences. Maybe kind of two-part question for you. One, why hasn't Hilton gone that route yet? And then, two, how do you think about the hotel business, kind of high level, more evolving to top to bottom offerings for travelers today?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I'm guessing that the real question is home sharing? Is that the way I should interpret that?

<Q – Mike Bellisario – Robert W. Baird & Co., Inc.>: That's one of the components. Just kind of more of travel-related platforms, and just in the context of increased customer loyalty and the brands going after a greater share of everyone's wallet.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I mean, good question, obviously, topical this week. You can imagine that we are always looking at options in terms of what we can offer our customers. That's why we've launched five new brands in as many years, and we've got four new brands that will come out over the next year or so. And we've looked at other areas in the travel space to judge whether we should do it. We obviously, in the home-sharing space, have spent a huge amount of time over the last few years, looking into the space, looking at it from a competitive point of view, looking at it from the standpoint of this is something we want to do.

And at least at this point, obviously, if we had done something, you'd know it. We have decided not to do it. That's not to say that we wouldn't consider that in the future at some point. At the moment, we believe, as you've heard in my description of Airbnb in the past, at the moment, we believe it is enough of a different business that it is not something that we need to or should focus on. That delivering for our customers the core experience of a very high quality, consistent, differentiated product, with amenities associated with it, and with very high quality consistent service delivery, is what they come to us for. And that we believe, at least at the moment, the best way to deliver that is in the way that we're doing it. Where we have the controls in place, in terms of the product, amenities, service delivery, to be able to consistently give them something they want, and frankly,

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something that they will pay a premium for. That's why we have the highest average market share of anybody in the space.

Again, I'm not saying that at some point, depending on how customers' demands change that we wouldn't do it. It's something we've thought about, considered, but at the moment, it is not something we're pursuing. And other things that are sort of outside the – obviously we're looking at other brands, other segments within the more traditional lodging space, other ideas. Again, we look at them, we try and be thoughtful about them. We're always considering options, but have not chosen to follow the path on any of those yet. And if we do, you guys will be the first to know.

<Q – Mike Bellisario – Robert W. Baird & Co., Inc.>: Understood. Thanks for that.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Chris Nassetta for any closing remarks.

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

I'd just thank you, guys, for the time today. I know it was a busy day. Lots of people reporting. So we appreciate you spending a little time with us. Particularly given we had already pre-announced. But a few incremental tidbits of information hopefully you got out of this. Look forward to talking to you after the second quarter is done. Take care. Have a great day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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