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Hilton Worldwide Holdings, Inc. (HLT)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to the Hilton Second 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.

Jill Slattery

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

Thank you, Denise. Welcome to Hilton's second 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 second 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, and good morning, everyone. We're pleased to be able to report another strong quarter. RevPAR growth of 4% was at the high end of our guidance range, which drove bottom line growth ahead of our expectations. We continued to deliver across all major regions, segments, and areas of the business. Both U.S. and international markets contributed to great results.

Leisure and corporate transient each grew roughly 3% in the quarter, and group RevPAR meaningfully outpaced expectations, increasing high single digits year-over-year in the quarter. Our performance continues to demonstrate the benefits of a simplified model as well as geographic and changed skill diversification. The result is a high quality fee stream that generates significant free cash flow and enables us to execute on our disciplined capital allocation strategy.

Year-to-date, we've returned nearly \$1.6 billion to shareholders, or roughly 6.5% of our market cap. This includes participation in both HNA and Blackstone's recent secondary offerings, during which both fully exited their

positions in Hilton. For the full year, we now expect to return a total of \$1.8 billion to \$1.9 billion to shareholders in the form of share buybacks and dividends.

Turning to our outlook, group position remains up in the mid-single digits for the full year and into 2019, and booking pace in the quarter for all future periods was up in the low double digits. Positive macro trends continue to support favorable industry fundamentals with forecasts calling for economic growth in every major region of the world through 2019.

In the U.S., economic indicators are modestly up versus prior expectations. Given synchronized global growth and particularly good trends in corporate spending, we expect system-wide RevPAR growth of 3% to 4% for the full year 2018, and bottom line results modestly ahead of prior expectations.

Our ability to deliver growth ahead of the broader industry is the result of our disciplined development strategy. We're committed to putting the right brands in the right locations at the right time. Our disproportionate share of the global pipeline relative to our existing size continues to illustrate the success of this approach.

In fact, signings for the full year are on track to hit our 110,000 rooms, surpassing our 2017 record levels and providing a solid base for continued long-term growth. This is up versus prior expectations, boosted in part by tremendous growth across Europe, the Middle East, and Africa, where total signings are on pace to increase more than 40% year-over-year.

Additionally, conversion signings are up more than 60% versus last year, meaning we'll be adding even more iconic properties to our portfolio, including the Waldorf Astoria Las Vegas. Due to open in early September, this marks the brand's entry into another important and dynamic market.

All of this is driving a record pipeline, which totaled over 360,000 rooms at the end of the quarter, representing 9% year-over-year growth and an industry-leading 41% of existing room base. Year-to-date, we've opened approximately 23,000 net rooms, up 8% versus the prior year, and remain on track to deliver roughly 6.5% net unit growth for the full year.

We had several notable openings in the quarter, including the Hilton Santa Barbara Beachfront Resort and the Hilton Dalian Golden Pebble Beach Resort. With signature restaurants and each boasting nearly 20,000 square feet of meeting space, these stunning properties are fantastic additions to our resort portfolio.

On the loyalty front, we added more than 3 million new Hilton Honors members in the quarter, bringing our total program to approximately 78 million members. With consistently strong growth, we are well-positioned to hit over 100 million member target by our 100-year anniversary next summer.

Additionally, members are more active and engaged than ever before. Honors share of occupancy increased 120 basis points in the quarter to nearly 60%, and members have unlocked over 25 million doors to date using digital keys at more than 3,600 properties.

To win on customer experience, we are incredibly focused on innovation. Technology, coupled with data and analytics, play an important role on our ability to truly personalize every step of the customer journey to drive more guest loyalty. From industry first launches, like Connected Room and our partnership with SHOWTIME to continuous Hilton Honors enhancements and offers, we're leveraging important tools to give our customers the choice and control they want from their travel experiences.

We also look for ways to innovate across other areas of our business. In April, we announced new 2030 goals as part of our Travel with Purpose corporate responsibility strategy. Through this initiative, we committed to cut our environmental impact in half and double our investment in social impact. Our sustainability efforts have already saved \$1 billion in operating efficiencies since 2008. Overall, we're very happy with our performance in the quarter and feel very good about the setup for the rest of the year.

The macro environment continues to provide favorable industry dynamics and we continue to execute on an industry-leading development strategy while delivering unique guest experiences, all of which should continue to drive strong shareholder returns.

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

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Thanks, Chris, and good morning, everyone. In the quarter, system-wide RevPAR grew 4% versus the prior year on a currency-neutral basis, achieving the high end of our guidance range.

Growth was driven by both occupancy and rate gains and benefited from the timing of Easter. As Chris mentioned, we saw solid performance across all major geographies and all business segments.

Adjusted EBITDA of \$555 million exceeded expectations, increasing 10% year-over-year. Outperformance was largely driven by better-than-expected fee growth.

In the quarter, management and franchise fees increased 11% to \$547 million ahead of our 7% to 9% guidance range due to RevPAR gains, better-than-expected license fee growth, as well as some timing items that we expect to reverse later in the year. Diluted earnings per share, adjusted for special items, was \$0.70, achieving the high end of our guidance range.

Turning to our regional performance and outlook, second quarter comparable U.S. RevPAR grew 3.5%, led by strong group demand, particularly in company meetings and convention business, and better-than-expected results at our luxury resorts. Revenue from international inbound travel also helped results, growing over 8% in the quarter, due largely to increases from China, Europe, and Canada.

For full year 2018, we forecast U.S. RevPAR growth of 2.5% to 3.5%, given better-than-expected group business and corporate transient trends.

In the Americas, outside the U.S., second quarter RevPAR grew 6.5% versus the prior year, given a mix of strong convention and corporate transient demand trends across Canada and broader market strength across the Caribbean and South America. For full year 2018, we expect RevPAR in the region to grow in the mid-single-digit range.

RevPAR in Europe grew 6.3% in the quarter, roughly 100 basis points ahead of our expectations. Broader strength in Turkey coupled with increased demand in Russia related to the World Cup helped drive results.

For the full year, we continue to expect RevPAR in Europe to grow in the mid-single-digit range as strong trends across Continental Europe are somewhat tempered by softer transient performance in the UK.

In the Middle East and Africa region, RevPAR was roughly flat as softening leisure and group demand in the U.A.E. offset improving trends in Egypt. For full year 2018, we expect RevPAR growth in the region to be within our system-wide guidance range.

In the Asia Pacific region, RevPAR increased 7.3% in the quarter, partially driven by strong leisure demand across resort properties. RevPAR in Greater China grew more than 11% in the quarter with occupancy increasing over 8%.

For full year 2018, we continue to expect RevPAR for the Asia Pacific region to grow in the high single-digit range, with RevPAR growth in China of 12% to 13%.

Moving to our guidance, for full year 2018, we expect RevPAR growth of 3% to 4% consistent with our last call, and adjusted EBITDA of \$2.07 billion to \$2.1 billion, representing a year-over-year increase of 9% at the midpoint.

Guidance is modestly higher factoring for the second quarter beat with some offset from FX and timing. We forecast diluted EPS, adjusted for special items, of \$2.64 to \$2.71.

For the third quarter, we expect system-wide RevPAR growth of 2.5% to 3%, slightly lower than our full year range due to July 4 and Jewish holiday shifts. We expect adjusted EBITDA of \$540 million to \$560 million and diluted EPS, adjusted for special items, of \$0.71 to \$0.76. 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 second quarter, bringing year-to-date dividends to \$92 million, and have returned a total of approximately \$1.6 billion year-to-date. Our board also authorized a quarterly cash dividend of \$0.15 per share in the third quarter.

For 2018, we now expect to return between \$1.8 billion and \$1.9 billion to shareholders in the form of buybacks and dividends. Further details on our second 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 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.

Denise, can we have our first question please?

QUESTION AND ANSWER SECTION

Operator: Certainly, Mr. Jacobs. We will now begin the question-and-answer session. [Operator Instructions] And your first question this morning will come from Harry Curtis of Nomura Instinet. Please, go ahead.

Harry C. Curtis

Analyst, Nomura Instinet

Q

Hi. Good morning, everyone.

Christopher J. Nassetta

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

A

Good morning, Harry.

Harry C. Curtis

Analyst, Nomura Instinet

Q

Hello, and first question just relates to the sequentially lower third quarter RevPAR outlook. To what degree is that entirely related to the holiday shifts or to some degree are you being cautious possibly because of potential weakness caused by the trade war?

Christopher J. Nassetta

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

A

It is the former, not the latter, but maybe worthy of a little bit of commentary to give a little bit more color to perspective on fundamentals, which I suspect will continue to come up. So, I'd say, by and large, we feel really good about the fundamentals, and it's driven by exactly what you would expect, and that is the basic setup of supply and demand.

Demand is growing at a decent pace for whole a bunch of reasons around the world. Here in the U.S., I think still benefiting from post-Tax Reform world where a lot of cash is going back into the system, a lot more investment is occurring, corporate profitability is growing, and companies are spending more money. And so demand is growing. Supply, I think, if you look at all the data has sort of hit a point where it's diminishing.

So, I think this year will be the peak in supply in the U.S. that 2% every expectation that it's going to go down. So, we're benefiting and so the statement of the obvious, we're benefiting from the laws of economics when demand is growing better than supply. I think that's going to continue for a period of time. How long? We don't know, but certainly we feel confident about this year. And honestly, we feel confident about the setup going into next year.

On the last call, technically we gave guidance of 2% to 4%, I guess, in the written form. But on the call, we provided an overlay, which was I felt like we'd probably do more likely 3% to 4%, and that was on the basis of the beginning of some decent trends that we were starting to see in a couple of areas of the business, importantly business transient and the group side, and that we were optimistic in what we were seeing and hopeful that those would continue.

The good news is they have, okay? So, when I look at the three big segments of our business, leisure transient has been strong over the last bunch of years, and it continues to hang in there nicely.

If you look at business transient, last year, I've said it many times, it was, I would argue, very weak because of a lot of uncertainty in the broader economic environment. We, at the beginning of this year, started to pick up. In the second quarter, we clearly saw a continuation of that trend and we're seeing it now, and we expect to continue to see it throughout the rest of the year. And I think group somewhat speaks for itself in our prepared comments. Q2 is very strong. But we're seeing basically an improving trend in the group side.

So, I think, there are lots of good reasons for optimism. I feel very good about the rest of the year, and frankly, I feel very good about the setup going to next year. So, then why Q3 and Q4, and why the second half of the year, which I've read a bunch of the analyst reports that seems where everybody's focused on?

We're year-to-date 3.9%. We guided 3% to 4%. So, that implies some lower level of expectation for the second half of the year. I'll cover both, the third and the fourth quarter. Third quarter, Harry, I know this is more than you asked, but all this needed to be said.

Third quarter is really holiday shift. I mean the 4th of July fell on the worst day of the week it can fall on. When it falls on a Wednesday, it blows the whole week apart. My guess is nobody on this call was traveling for business that week, nobody in this room was, and nobody on Earth it seems, well, nobody in the United States anyway was.

So, you have a very weak start to the quarter. You end the quarter in a weak way in the sense that Jewish holidays are moving both day of week and within the month, moving up to a more impactful time, and that when we look at the math, that's all that's happening. If you sort of as best we can cleanse for those things, things are moving along just fine. All of the optimism that we had in my earlier commentary about the various segments holds true as we go into the second half of the year.

Fourth quarter is just a matter of honestly – maybe a touch of conservatism honestly, that is based on the fact that the comps are harder, and those are partly driven by the weather comps. All the hurricane activity did create an updraft in results in the fourth quarter. You also were starting to get the early benefits from some of the passage of Tax Reform and clarity around tax policy in the United States, which gave a bit of a boost.

And so, I will be the first to say, as we look at that, third quarter I think is reasonably, because it's upon us and we've already experienced 4th of July, I think that's reasonably easy to forecast. Fourth quarter is harder. Those things are little bit more difficult to pin down. So, there could be a touch of conservatism built into that. But I would not want to leave anybody with the impression that we somehow think things are weakening because of trade wars or anything else.

We feel pretty darn good for the reasons I described about what's going on with the underlying business. I've actually sat here with our team, preparing for this, and as I do every Monday morning, and I'll stop on this, and asked are we seeing any impact of the sabre-rattling that's going on, on the trade wars in any of our markets? Are we seeing any patterns of bookings, either business transient, leisure, or group in particular? Are we seeing any impact in our China business on the development side, on the operating side? And so far the answer is we are not seeing anything that we can measure.

And I think things are progressing as they have been and we feel good about the remainder of the year. And as I said, we feel pretty darn good about the setup, all things being equal, for next year.

Harry C. Curtis
Analyst, Nomura Instinet



Very good and quick one for Kevin. Can you just walk us through the sequential lift in G&A? My guess is that much of that is non-cash, but probably requires a little bit more detail.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, sure, Harry. As you point out, it is largely non-cash and largely below EBITDA. So, it's really three things. The implementation or the effect of the new accounting standard related to pension accounting moves some benefit from out of G&A and into another below the line item. There's some FX in there and then a little bit of stock comp, and that's it.

Harry C. Curtis

Analyst, Nomura Instinet

Q

Okay. That's it for me. Thanks very much.

Operator: The next question will be from Joe Greff of JPMorgan. Please, go ahead.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Good morning, guys.

Christopher J. Nassetta

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

A

Good morning.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Thank you for the exhaustive answers to the first question, Chris.

Christopher J. Nassetta

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

A

Sorry about that. I answered now that everybody wanted to ask that, Joe. So now, I have answered everybody's question.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

So to add on that slightly, when you think about your three major buckets, leisure and corporate transient and group, which do you see as the relative outperformers in the second half, given the relative outperformance of group versus the other two in the 2Q?

Christopher J. Nassetta

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

A

I think for the second half of the year and for the full year, you will ultimately see group outperform all segments. It will probably go group, leisure transient, business transient. So group will be the outperformer. It has been in the first half of the year. I think it will be in the second half of the year.

I think leisure transient, business transient year-to-date, and best that we can forecast, will be pretty darn close, but I think leisure will eclipse it by a bit. The most important point in that though, and I covered it a bit in my soliloquy there a few minutes ago, is that business transient is much better than it'd been.

Last year, you were talking about 1%, 1.5% if you were lucky. This year, I think for the full year we expect it to be more like 3%, so a material uptick from where we were.

Leisure has been strong. So, leisure is going to be likely about where it's been the last couple years, and then group is going to be realistically 4%-plus. So, figure transient will be 3%-plus a little bit maybe, and group will be 4%-plus a little bit in the end.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Great. And then, Kevin, a quick follow-up; what was the diluted share count at the end of the quarter, the absolute diluted share count, not the average?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, hold on one second, Joe. I just don't want to give you the wrong number; 303 million.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

That's the average or the absolute share count at the quarter end?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

That's weighted average. Oh, you want the absolute?

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Yeah, what it was at June 30.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

I don't have that in front of me, Joe. I'm sorry. We'll get it to you.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Yeah. Okay. Thank you, both of you.

Christopher J. Nassetta

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

A

Hold on. We got it. What is it?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

298 million.

A

Christopher J. Nassetta

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

298 million.

A

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Thank you.

Q

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

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, guys, good morning, and thanks for taking my question.

Q

Christopher J. Nassetta

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

Morning.

A

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

You guys spoke and, Chris, you provided some helpful color around the build in the pipeline. If I recall earlier in the year, maybe the outlook on signings in the year was a little bit down from I believe the number was 108,000 last year. With the exception of some of the strength you've seen in Europe, and the strength in conversion activity that you referenced, is there anything else that you're seeing in the trajectory of your signings and development overall that has you more or less encouraged than maybe last time we spoke?

Q

Christopher J. Nassetta

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

Yeah, I mean, I think you covered the big ones. Europe and the Middle East were very helpful. Conversions obviously are a big focus in a tightening lending environment. So, we're pleased with that. I'd say the other thing that has outstripped expectations, particularly in an environment where construction costs have been going up at a very high rate. I think the number that I got last week was from our team is that year-to-date construction costs have gone up 7% or 8%, and that's off of a 10% increase last year.

A

And so, you have cost going up in an environment where lending standards have tightened, and while RevPAR is growing, it's not growing enough to keep up with that. And so, you've seen, obviously, a decline in what's going on in the U.S. So, we started the year, all that being said, feeling like in the U.S. we would sign fewer deals. We would get more than our fair share given the strength of the brands and the market share of the brands, but that the whole market was going to go down.

In reality, what looks like is going to happen based on our forecasting at this point is the whole market's going to go down in terms of signings so we're going to be relatively flat in the U.S. So, that's how we're doing better is we'll be probably down a little bit, but not as much. So, Europe, Middle East up, Asia Pacific doing fine, the U.S. maybe down, but very modestly, and down less than we would have thought.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Great, thank you. That's helpful. And then if I could just one follow-up on the same topic. As you look at the pipeline and you look at kind of your under construction right now, and you kind of extrapolate out to 2019, is there the potential then to see somewhat of an acceleration in your net unit growth in 2019 relative to the 6.5% you're guiding to for 2018?

Christopher J. Nassetta

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

A

No. We get that question a lot. I think as we said at our Investor Day a couple of years ago, and I've said pretty consistently, we're really comfortable in the 6% to 7% range when we look at all factors. There are dynamics that have certainly changed over the last couple years, since we sort of gave that range in terms of what's going on in the U.S. As I just described what's going on in Europe, what's going on in Asia Pacific, it's a dynamic situation.

But when we look at it overall, I think that we're in that zone for the next few years, and when we look at what's under construction, we look at the opportunities in the conversion world. And we look at building off a higher base because every year that goes by, we're getting bigger and it gets harder. That's sort of the range that we're comfortable with. I would not want to guide people to 7% or above.

Having said it, it's not impossible, but I want to be clear in saying that is not where we would guide you. We're going to end up in the middle of the range this year and I think everything is sort of lining up in terms of what we think that's under construction that's going to deliver next year, and what we think we can drum up in conversion activity to put us in that same range. So, hopefully, obviously, we always want to be to the mid to the high point of that range. But I think it will be within that range.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you, Chris.

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. This is I guess a follow-up to that line of questioning. So, you mentioned rising construction cost, tightening financing markets. At the same time, it seems like we keep hearing that the transaction environment for existing hotels has been heating up and perhaps valuation moving a little bit higher. What do you think is driving

that dichotomy and what are the ramifications kind of going forward for your pipeline as you kind of put down your brand on that?

Christopher J. Nassetta

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

A

I think it's those things that are driving it combined with one other, which is that the debt markets for existing assets are incredibly fluid right now. So, debt markets for new construction are much more limited. Cost to build has gone up at a high rate. So, what do people do? They want to be active transactionally. They're looking at a cost to build going up and cost to buy that could potentially be lower than a cost to build, and it's very financeable. So, it's not at all surprising that you would see more transaction activity. We're seeing more change of controls. My expectation is in this environment you're going to continue to see more of that.

Implications for our pipeline are, as you can see, this has been happening over the last couple of years. I think our expectations we're going to continue to grow the pipeline. We need to continue to grow the pipeline in order to deliver the 6% to 7% net unit growth, and I would say notwithstanding the fact that the U.S. will I think continue to be under pressure in the sense of development activity broadly slowing down. And even though we'll get more than our fair share of it, it will be hard to fight that trend. It's a big world and that's the whole point of being strategic about how we deploy resources around the world that things move in different rhythms around the world. And as much as things are slowing down here, there's still tremendous opportunity for us in other parts of the world, notably in Europe, the Middle East, and Africa and clearly in Asia Pacific.

And so, this is in my now coming up on 11 years that I've been here looking at the stats, we've seen this cycle. This will be the third time we've effectively seen this cycle, where U.S. goes up, U.S. goes down. Things come up and down. And we I think then try to be very strategic and I think have demonstrated I think our ability to be successful in an environment that's dynamic by making sure that we're taking advantage of opportunities elsewhere.

So, you're going to see the U.S., look at all the Smith Travel numbers and lodging kind of metrics and everybody's numbers, they all show that supply numbers are going down in the next couple of years. And I think they're all right for the reasons that we talked about. But good news is the world's a big place and I think we've set ourselves up very well to continue to be able to be quick on our feet and make sure that we're continuing to grow at a great pace.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful color. And I guess as an unrelated follow-up, I think it's been a little bit over a quarter maybe in two with the new credit card programs we launched, I guess what are you seeing from the consumer in terms of signups and usage following the introduction?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, so far so good, Stephen. It's still, again, it's still early days, but the cards are being well received by consumers and they do drive, well, more hotel use and more spend in our system overall once people signup for the card. So, all good so far there.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much.

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.

Christopher J. Nassetta

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

A

Good morning.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Q

Maybe to stick with the discussion around kind of pipeline, and what's going on there, you mentioned the conversion activity. I think you said, the numbers are quite strong in the quarter. Could you just help us break out a little bit more of like kind of the economics there? So, like how much shorter are these typically in the pipeline? And then, what's sort of driving the independents' decision to kind of affiliate right now, and just sort of what's the value proposition on their end?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, Shaun, it's Kevin. Well, to start off with the easy one, on average, convergence end up being in the pipeline for around six months, so much shorter delivery time, and that's for obvious reasons because the hotel doesn't have to get built.

I'd say, what's driving overall – the question from before around transaction activity tends to drive a better environment for conversions. You just have more contracts that become available on a sale, or more often than not, a new owner might have a different perspective on which brand they want to affiliate. So, it tends to drive – an active transaction environment tends to drive more conversion activity.

And then the independent to branded trade is just around the power of the network effect and our ability to drive market share. And yes, you're adding on fees. But if we can drive higher net revenue – net of the incremental fees, then we tend to find owners that want to affiliate with us. And that's been going on, and will continue to go on. But in my opinion at least, a healthier transaction environment can drive more conversion.

Christopher J. Nassetta

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

A

Yeah, I think that's right. I mean I think ultimately that we'll continue to see increases in volume, and the value proposition is our average market share in our systems are 114%, and most very rarely with independent hotels drive that kind of market share. And so, we have an ability to drive revenues. We also, even though almost all of these end up being franchise, not all of them, but the bulk of them, we have a very positive impact on their cost structures, notwithstanding the fact they got to pay us. They get it back in share and they get it back in distribution cost efficiencies, because the traditional independent hotel becomes very, not all, but most, very heavily reliant on OTA business, and they pay a lot higher exchange rate than we do.

So, they get to not only come into the system and get the benefit of all of the direct relationships we have with customers, but for the much lower percentage of the business, they do depend on the OTAs for they pay a lot less for it. So, you get higher market share, top line, much greater efficiency in distribution cost, and they can afford to pay us and make a lot more money.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Q

And just as a follow-up because I think this topic's relevant, just like as distribution costs are becoming just an ever more clear discussion, and obviously the large brands like yourself are doing I think a better job of breaking these out and helping owners themselves, kind of really think about the economics here. Does this discussion come up more as a bigger sticking point than it was three, five, 10 years ago in your experience around kind of the conversion conversation? How focused are potential signups and conversions on the distribution piece of the equation?

Christopher J. Nassetta

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

A

By the way, I wouldn't say it didn't come up five or seven years ago. It did. But it is a significant part of the discussion in almost every case now in a really positive way for us, in the sense that we are delivering so much of the revenue centrally through our systems and we are not dependent in the same way as others or certainly independents on the intermediaries. And because of our scale, we have a good deal where we do depend on it. And so, this is clearly part of the equation.

I'd say, Kevin's point is right. It generally starts with a market share. I'd say it's in the order that I talked about it. First and foremost is people are trying to drive top line, and then a very close second is the distribution cost discussion. Obviously, we compare generally quite favorably to their existing setup.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Christopher J. Nassetta

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

A

Yeah.

Operator: The next question will be from Felicia Hendrix of Barclays. Please, go ahead.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Hi, good morning, and thank you.

Christopher J. Nassetta

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

A

Good morning.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Hi. So, I just had a couple of questions related on your international business. First, you guys outperformed the STR data in Europe, and a lot of us were pretty focused on the slowdown we saw in Italy and Spain in the quarter, just in the industry data. So, I'm just wondering if you could help us understand what's going on there and talk about your outperformance in the market.

Christopher J. Nassetta

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

A

Yeah, I mean of course the outperformance because we're better, kidding. Well, we hope we are better. We are driving...

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

[inaudible] (37:00).

Christopher J. Nassetta

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

A

The reality is that our outperformance, kidding aside, in the quarter was that we had massive share gains. Frankly, we had massive share gains. We had share gains across the board in every major region of the world. Our share gains in APAC and EMEA were outstanding. And so, our outperformance versus the market is because of our strength of the brands, market share, and commercial strategy. So, a big thanks to all of our teams that are helping drive these strategies.

If you look at it, I know there's been a lot of discussion about international slowing down, I've sort of had people asking me that it's not really what we're seeing. If you sort of just like whenever – quarter-to-quarter, there's always things sort of moving around that affect things. But if you look at the whole year, which cleanses not all, but most stuff, the international business for us, everything outside the U.S. for the full year is going to be almost exactly where we ended up last year. They will be made up a little bit differently, region, geography by geography, but when you look at it, it will be within a tenth of a point of where we ended up last year.

And so, what's really happening if you look at last year, we ended up at 2.5%, I need to take the midpoint of our guidance, we're saying we're going to be at 3.5%. Hopefully we do better. But that's what the midpoint of our guidance would be. It's basically the international performing almost identically last year, which of course was quite good, and the U.S. business is getting better, and that's the simple story of what's going on.

I said it I think on our last call. I mean the thing that we are really pleased to see over these last few years, I don't have the exact data points in my head, Kevin may, but if you look at what we've been doing over the last couple of years and the last few quarters in APAC and EMEA, for the first time ever, our market share numbers have eclipsed our U.S. market shares. And so, this is really a testimonial of the fact that the network effect is being built out outside of the United States and it's working.

Our U.S. market share is industry-leading on average. So, those are really good numbers. But in APAC and EMEA, our market share numbers are crushing it. And that is a wonderful testimonial to the work the teams are doing. But it's a great leading indicator when you talk about 40% – signings up 40% in EMEA. The reason it's happening is because the share numbers are growing like crazy and we're attracting more owner, attracting more capital by virtue of owners wanting to invest more in the system because they're seeing this and they want to invest to jump on the bandwagon, and invest with us to make more money.

So, certainly, we've had reason to believe good outperformance in the sense of gaining share over the last few years, and then second quarter was really, really big share. But I have an expectation, we'll continue to gain share as we go forward in the international stage.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

That's helpful. But your outperformance aside, is there anything going on in those two markets, Italy and Spain, just in terms of the data we saw in the quarter, or like you said should we just look at it more holistically in terms of the year?

Christopher J. Nassetta

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

A

I'll be honest. I haven't studied Italy and Spain for the quarter. When we met with our teams, which I did across the globe last week, there was nothing that was pointed out to me that was anomalous stick in those markets or that whatever happened that won't sort of clear itself up by the end of the year.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Okay, thanks. And then just my follow-up. So, you kind of just went through why you're outperforming. Just wondering and maybe getting a little bit greedy, how long do you think you can generate the RevPAR growth as mid to high single digits in Europe and Asia? And how far may you be from the prior peaks in terms of inflation adjusted pricing in some of those markets?

Christopher J. Nassetta

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

A

That's of course really hard. I don't have that crystal ball. I think that those markets – let's take them one at a time. Europe is a big place, lots of different things going on. The UK has been a little bit weaker, being compensated for with strength in other parts of Europe, Germany in particular, Turkey coming off of easy comps and issues that have started to stabilize.

My expectation is that both as a consequence of sort of things being reasonably steady other than the Brexit situation, but reasonably steady in our ability to continue to drive commercial performance that we're going to drive better performance there than honestly we can drive here, even though U.S. is getting better, and Asia Pacific clearly, I think that will be the case just because I think the dynamic of those economies is even though we can debate China is growing a little bit slower and there are issues in Japan and the like in Southeast Asia, you could debate.

The reality is those as across the board, the Asian economy is going to be growing at a faster pace than most economies around the world for the foreseeable future, maybe slower than they have a little bit, but faster than the rest of the world. So, I think we're going to continue to see an ability to drive really good performance there. And if we do our job, we're going to outperform by continuing to have strategies that deliver incremental market share. So, I think for the next couple of years, I feel reasonably good barring unforeseen circumstances.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, and, Felicia, I'd just add, and it's not that you can't see a slowdown in Asia or anywhere in Asia, but outside of mature markets like Japan, prior peak is probably not the right way to think about it. In a lot of cases, we're still – it's an emerging market story...

Christopher J. Nassetta

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

A

In mature markets.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

...and we're establishing these markets, especially in the middle market, where the business will continue to mature and rates will continue to grow, albeit within the context of economic cycles. But I'm not sure prior peak is the right way to think about it in Asia.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Yeah, that's fair. Thanks.

Christopher J. Nassetta

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

A

Sure.

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

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. You made some positive comments around group production in the quarter. Can you just talk about your 2019 group base, and how it makes you feel about 2019? Thanks.

Christopher J. Nassetta

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

A

2019 feels pretty good. So, I think the comment we made, we were up in the high single digits, low double digits for all periods forward in the quarter, all bookings forward on the group side, and into 2019. So, I think – I don't have the numbers sitting in front of me, but we're mid-single digits this year. I think we're mid-single digits, maybe even a little bit better, for next year. So, the group feels pretty good.

And frankly, if we look out, obviously, it's a diminishing percentage of bookings in terms of the overall bookings, ultimately that will occur in any year as you go forward to 2020, 2021, et cetera. But you look at the numbers in the next two or three years and they all look pretty good, and getting better.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

All right. Thank you.

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

Robin M. Farley

Analyst, UBS Securities LLC

Q

Great, thanks. I just had a question on your 2018 guidance. With the RevPAR increase the midpoint, would it seem like maybe a higher EBITDA increase? And I know your fee growth rate for the full year didn't go up. I think you said maybe there were some factors in Q2 that were timing that wouldn't. They were maybe sort of borrowing a little bit from future quarters. But I know your SG&A went up a little higher, but even just at the EBITDA line, can you talk about what else might be happening on a full year basis where maybe we would have thought the RevPAR increase would have meant a little more of an EBITDA raise?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, sure, Robin. It's Kevin. First of all, the G&A increase is, like I said, largely non-EBITDA. So, that's really not having an impact. So, roundly, it's a pretty simple story. Of the \$15 million beat, about a third or so of it was timing.

We've got about a \$10 million lesser of a tailwind in the back half of the year from FX. So, that kind of gets you back to the same midpoint. And we increased the back part of the year by \$5 million. So, that's really the story.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay, great. Thank you.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Sure.

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

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Good morning. I'm left with just a couple of small questions here [inaudible] (46:09). Chris.

Christopher J. Nassetta

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

A

Yeah.

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Any update on timing for the Waldorf? And are you collecting in New York and are you collecting any fees from that currently?

And then the second question is whether you have any commentary on the negotiations on the union contracts.

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

A

In New York, the Waldorf Anbang continues to move ahead. But, first of all, we are not collecting any fees, zero fees. So, only upside when the Waldorf reopens. They are moving forward with all of the demolition work that needs to be done. They are moving forward with the contract documents for all the renovation, and they have said to us that when they complete those things, which they're working away at, they intend to execute on a plan for the renovation. I think the expectation is that's probably likely possibly late this year, I think more likely early next year.

I think it was reported publicly lately. So, it's consistent with what they've said to us. They are looking to sell a whole bunch of other U.S.-based assets, including, which was reported, the Strategic Hotels, but their intention was not to sell the Waldorf. That's what's been reported. That's what they've told us directly. So, they're moving ahead.

No real comment on union negotiations. We work really hard to maintain what we think is a very good and productive relationship with the unions, and different markets come up at different times where it's basically in a constant discussion with them on a whole bunch of different things, not just when contracts are up. So, nothing really incremental to report relative to that.

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

Q

Chris, if I could just follow up on the Waldorf, I assume that's a three or four-year build-out process once they do get started. Is there any thought to...

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

A

Yeah, once they get started, it should be three. I don't think it's four. I guess it could, but because there's a lot of work to be done, but the building's there. You can't touch the – you got to clean up and improve the exterior, but the base building is there. So, you do take some of the timeline out because of that. But I think right now the schedule looks like three years or less.

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

Q

Is there any thought on your part to opening another Waldorf in New York, a different part of New York, maybe just to have that presence?

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

A

Not at this time. Obviously, we're going to be opening another Conrad in New York, in Midtown here in the not too distant future. So, we'll have two Conrads in New York. But I think the idea is in New York, the Waldorf should be – the Waldorf Astoria in New York should be the only Waldorf Astoria in New York. If at some point – I do not expect this to be the case, but if at some point, it is clear that Anbang is not moving forward or it's going to be a significantly extended timeframe, then that's something that we would have to be intelligent about and consider.

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

Q

Okay. Thank you.

Christopher J. Nassetta

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

A

Yeah.

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

Jeffrey J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

Good morning, guys. Chris, I'm just quite curious about your thoughts on the cycle, specifically what does the shift in your net unit growth towards conversions and maybe a little bit away from development tell you about the future of net unit growth or components of RevPAR growth? Does it foreshadow a shift in your mind?

Christopher J. Nassetta

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

A

I don't think so, Jeff. I mean I think if I look at the – again, even in the 11 years I've been here sort of the cycle of what's going on with the pipeline, obviously our net unit growth has grown throughout that time. And the complexion of it has changed and the pipeline has changed a lot. But the patterns have been relatively consistent. And so I don't think it really foreshadows much of anything. I think it's back to what I said. It's a big world and there are lots of ways for us to be able to grow in ways that are great for our customers and giving them more opportunities to stay with us and great for all of our shareholders because we drive more profitability as we do it.

And so, conversions are one way we do that. It is largely a western experience. Although, there are some examples in other parts of the world where we – in the Middle East and Asia, where you will see us do some conversions. The bulk of it really will occur in the United States and Western Europe, and I think as a natural – it's a natural consequence of what's going on in the broader environment just in the U.S. as we've discussed, there's just less stuff getting built and I think independent hotels that have more I would argue more of an incentive in this environment to focus on trying to work with somebody like us and getting to the system to be able to drive greater profitability.

So, no, it's a long winded rambling way of saying I don't think there's anything particularly unique about what we're seeing in conversions. Conversions as an overall percentage of our NUG actually are still towards the lower end of the range. I mean if you go back in 2009 and 2010, coming out of the Great Recession, where you find conversions pick up a bunch, it was over 40% of our NUG. You look at it last year, it was roughly 20%. I think when we finish the year this year, it will be probably mid-20%, maybe not even quite, but somewhere around 25%. So, it's still not in a relative sense compared to where I've seen it. It's still not anywhere near the high watermarks.

I think when you see – if and when, I mean I guess it's always when because business cycles eventually turn, although it doesn't certainly feel like that's happening anytime soon. When that happens, I think that's when you would see an incremental surge in activity and conversions because when times get much tougher, people look for shelter. And the fact that we have very high market share can drive more efficient distribution costs, works now really well and works even better when you're in a down cycle because people are even more focused on it.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah, I think all of that said, it will be hard for us to get back into sort of the mid-40% in terms of percentage of conversions just because we have a much more mature development strategy today than we did back...

Christopher J. Nassetta

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

A

Yeah, I think that's fair. I mean I don't think we'll ever get there. Yes, that's a good add-on because I didn't mean to imply we would. That was in a different era for this company, much lower NUG, number one, just a much lower number, and number two, yeah, they have a much less mature development strategy. But I think in a down cycle, we clearly go up to a 30%. We can easily get to 30%. I doubt it would go a whole heck of a lot higher than that.

Jeffrey J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

That's useful. And just maybe a second question on pricing power. I know customers never relish paying more. But just the occupancy in the U.S. is near a about 20, 30-year peak and the ingredients are certainly there for an outsized response and rate growth to incremental demand that we're seeing particularly in certain markets. I was curious if you have any kind of anecdotes or experience that you're seeing right now around what the response has been from group and corporate customers to stomach price increases. I mean do you think there's a little bit of a delayed response either this year or maybe it increases next year? Just feels like the things hold together, we can see accelerating rate driven growth RevPAR and just wondering what feedback or how you think your customers are expecting that?

Christopher J. Nassetta

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

A

Yeah, I mean I think the answer is yeah, I do think you're going to continue to see as you did last year and as I think you will this year in the U.S., the bulk of our RevPAR growth is coming in rate. It may not be supercharged rate growth, but I think last year and I think it will end up this year about the same play like 70% of our RevPAR growth is coming in the form of rate.

There's still weaker shoulder period weekends. We're getting occupancy even though it's at very high levels historically because I think we're a lot smarter about how to fill off peak times, which we want to keep doing. So in theory, if we get smarter and smarter, better at that, we're going to be able to drive some incremental occupancy all the time because we still have plenty of capacity in shoulder periods and particularly on weekends. No matter what we do, we still have capacity.

So, you always want to see a little bit of occupancy growth because we should be trying to fill every room we can. Rate growth is the bulk of it. I think you'll continue to see that. And yeah, here's what I'd say that if trade, sabre-rattling aside, you started out this year – ended last year, started out this year with a much more positive psychology in the business environment, people have a easier regulatory goal that they've got a lot – they have clarity on tax policy at least for now, they have a lot more dollars in their pocket to spend, they're investing it, just the psychology is better, the confidence is better. And in that environment, people are willing to spend more money. They're less rigid about, it gives you more pricing power just because also the economics, but also the psychology that they're just willing to spend more.

So, I do think if this momentum continues in the psychology and the business community is good as it has been, it will give you the ability to translate that into some incremental pricing power. You were starting to see it in a sense in – you could argue what we just described in the group space is the precursor to that, right, in the sense that

you're seeing over the last two or three quarters a big uptick in the group space of people being willing to not only book in the moment for the moment groups, but out multiple years. What does that suggest?

That suggests this has more positive view in the business community about what the future holds. And I think that is a decent precursor to the fact that their confidence is going to translate into more spending, broader uptick in economic growth. And I think what goes with that is an expectation that you got to pay more for some products and services, including ours.

So, I don't want to get ahead of myself and saying it's going to be a bonanza, but I think, if this momentum continues, I do think it allows you to build incrementally just because of the laws of supply and demand a little bit of incremental pricing power. How much, it will depend on how much momentum, how much strength in the economy and for how long.

Jeffrey J. Donnelly

Analyst, Wells Fargo Securities LLC

Okay, great. Thank you.

Q

Christopher J. Nassetta

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

Yeah.

A

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

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Hi. Good morning. You had gone over in length your thoughts of the no impact so far on bookings from the fears around trade war. How about the recent uptick in gas prices? Are you seeing any impact at all perhaps on your midscale brands for the summer leisure travel?

Q

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

No, we're really not, Pat. The U.S. consumer still feels pretty strong and I think everything is just fine on that front.

A

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. That's it. Quick question. Thanks.

Q

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

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Hi. Thanks. I just wanted to ask you, you talked about reaching 100 million Honors members, I guess, I think by next year. And you recently – a property in Jamaica changed hands and will move to an all-inclusive model. And just how are you thinking about expanding into that space particularly as you have more customers who presumably are going to want to use their points and the all-inclusive space seems to be gaining traction with

Q

consumers and are you just sort of seeing that you make as kind of a test case? Or what are your thoughts around that?

Christopher J. Nassetta

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

A

No, it's a good question. We like the AI space in the sense we've been in it for a very long time in a fairly modest way in the sense that a number of our existing hotels largely centered on the Hilton brand, a little bit within the DoubleTree brand have had an all-inclusive sort of approach and pricing structure, including in Jamaica, but also in other parts of the world, in parts of Europe, in parts of the Middle East, Egypt resorts being one notable geography.

And so, we like it. We've been doing a bunch of work to figure it out, and I think the expectation is that we will – that is something that in certain locations, not broadly across the world, but in certain geographies, that is something that customers want. We do think it is a benefit from an Honors' point of view, because it's a place that Honors' numbers can redeem in too and a bunch of – enough of them want to do it.

So, I'm not going to make a big announcement on we're going to create an AI brand today. It's something we spend a lot of time on. I think you should expect to see us do more in that space. We are now figuring out exactly how we're going to do that. Exactly how we're going to do, it means how we're going to do it as we've been doing it with existing brands, and do it at a sort of higher volume, or would we create sub-brands within those brands that are purely focused on AI. And we don't, I'm being perfectly transparent, we don't have any answer to that yet, but you will certainly see us for I think all the right reasons those that you described, which is some customers want it. You'll see it doing more in that space, and more to come there over the next few months.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks. And then I just wanted to ask you, you mentioned some of the group booking patterns into next year. Have you seen any change, just given the way that group commissions are going to change through third-party bookings? Has that do you think accelerated any bookings or is that not really that meaningful overall?

Christopher J. Nassetta

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

A

No, I mean that's very hard for us to track. I've asked that very question of my teams many, many times. As far as we can track and the best data I have, we don't think that there's been any material impact from the change in commission structure. My guess is there's a little bit of impact, just because naturally there should be and it's sort of hard to discern scientifically, so it's more atmospherically. But our folks think that the momentum is being driven by sort of the core underlying fundamentals of more positive psychology, just people feeling better, being willing to make decisions on bookings, because they're more confident about the future and not much to do about commission structures.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Okay. All right, thank you very much.

Christopher J. Nassetta

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

A

Yeah.

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

Christopher J. Nassetta

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

Thanks, everybody, for the time today. As always, we appreciate you spending an hour of your morning with us. Pleased with our second quarter, as I said, feeling good about the setup for the rest of the year, and frankly going into next year. We'll look forward to talking to you after the third quarter, the report on all matters. And I hope everybody enjoy the end of your summer. Take care. Thanks.

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

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