Corrected Transcript

13-Feb-2019

# Hilton Worldwide Holdings, Inc. (HLT)

Q4 2018 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, ladies and gentlemen, and welcome to the Hilton Fourth Quarter and Full Year 2018 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

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

## Jill Slattery

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

Thank you, Denise. Welcome to Hilton's fourth quarter and full year 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 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 measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at ir.hilton.com.

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Executive Vice President and Chief Financial Officer, will then review our fourth quarter and full year results, and provide 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 appreciate you joining us today.

We're happy to report a good finish to what was a great year for Hilton. In the fourth quarter, adjusted EBITDA and EPS once again exceeded our expectations. We continue to prove the resiliency of our business model as net unit growth exceeded our expectations and drove the majority of our bottom line and free cash flow growth. We also continue to demonstrate the power of our network effect by increasing our industry-leading market share premiums, 100 basis points for the full year, with all regions gaining share. Exceptional experiences for our guests drive better profits for our owners, generating higher returns for our shareholders. Speaking of returns for the full year, we returned $1.9 billion to shareholders in the form of buybacks and dividends, representing approximately 9% of our market cap.

Turning to results, our system-wide RevPAR grew 3% for the year. Group business performed well throughout the year with RevPAR growth of 4% slightly exceeding our expectations given particular strength in convention business across a number of key markets. Corporate transient trends were healthy with RevPAR up 2.6% for the year with some softness experienced in the fourth quarter. Leisure transient continued to grow also up 2.6% for the year, but fell shy of our expectations given greater-than-expected impact from events and calendar shifts, and a bit of softer demand in the later part of the year.

Looking to the year ahead, we expect similar to modestly slower trends versus what we saw in full year 2018. Macro indicators continue to support generally favorable fundamentals and a good backdrop for continued pricing increases despite modest deceleration and GDP expectations versus prior estimates. Group trends are solid with 2019 bookings up in the mid single-digits and corporate negotiated rates are up just over 2%, slightly ahead of last year's growth. Given the modestly lower macro forecast coupled with uncertainties in some international markets, we're adjusting our full year RevPAR guidance range to 1% to 3%.

An area of the business where we continue to have greater visibility is net unit growth. Our strategic approach to development has allowed us to establish one of the largest and most diversified systems and pipelines in the industry. In 2018, we opened more than one hotel per day and had the best year of openings in our history, adding over 450 hotels and achieving net unit growth of nearly 57,000 rooms or approximately 7% growth year-over-year. We ended the year with roughly 5,700 properties and 913,000 rooms across 113 countries and territories.

It was also a record year for construction starts and signings. During 2018, we started construction on more than 83,000 rooms, the best year in our history. We signed 108,000 rooms, marking our fourth consecutive year of signings over 100,000 rooms and are on track for another year of record signings with increases expected across both the U.S. and international markets. We remain focused on building a presence everywhere in the world our guests want to travel. With more than half of our pipeline located outside the United States and 35 new countries represented we have tremendous opportunities to grow our global footprint for the foreseeable future.

Roughly, 30% of our pipeline is located in Asia Pacific, a region that continues to benefit from powerful long-term secular trends supported by a growing middle class in China. In the fourth quarter, we celebrated the opening of our 50th Hampton by Hilton in China with an additional 200 in the pipeline. We also debuted our accessible lifestyle brand in the region with the opening of the Canopy by Hilton Chengdu City Center. With more than 75% of our pipeline in Asia Pacific under construction, we expect to open approximately 20,000 rooms in the region in 2019 and achieve roughly 20% net unit growth.

The Europe, Middle East and Africa region accounts for nearly 20% of our pipeline and has an increasing number of Hilton Honors members driving demand for our products. In particular, we continue to gain great traction with our newer brands and expect positive momentum to continue with the recent launches of Motto, our urban lifestyle micro hotel brand; and LXR, our luxury collection brand. We celebrated several milestone openings in the region last quarter, including the Hilton Beirut downtown, the Lincoln Plaza London, Curio and we look forward to celebrating the opening of our first LXR property in Europe, The Biltmore Mayfair, in London in the coming weeks as well as adding several other unique properties to the collection in the coming year.

In the United States, we continue to focus on serving guests for every stay occasion across a variety of price points. In the fourth quarter, we celebrated the opening of our 50th Tru hotel, continuing its momentum as the fastest hotel launch in industry history. This year, we expect to open another 75 of the 500 hotels in the pipeline and under development. We're also thrilled to welcome the Waldorf Astoria Atlanta Buckhead to our system during the quarter. This exciting addition enhances the brand's presence on the East Coast and brings our total luxury and lifestyle portfolio to 73 properties open globally with another 73 in the pipeline.

For the full year, we gained over 14 million new Honors members, bringing total membership to 85 million at year-end, up approximately 20% year-over-year. Growth is coming from every major region of the world, with roughly

40% of members coming from outside the United States. Our Honors members now account for approximately 60% of system-wide occupancy, which is up 200 basis points for the full year.

We expect continuous enhancements to our Honors program, coupled with innovations like Digital Key and Connected Room to continue to drive more direct relationships with our guests. Since its launch in 2015, we have scaled Digital Key to more than 4,100 properties globally, and guests have opened more than 40 million doors to-date using the app-based feature.

We also rolled out over 1,800 Connected Rooms, with plans to bring the technology to approximately 300 hotels by the end of 2019, enabling guests to create more personalized travel experiences through our partnerships with Netflix and SHOWTIME and other customization features.

Last November, in preparation for celebrating our 100th anniversary this year, we announced the release of research that showed the positive impact Hilton has had on the people and communities we serve. Thanks to The Hilton Effect, during the first 100 years, we've welcomed 3 billion guests, employed 10 million team members, and contributed $1 trillion in total economic impact to the world.

As we prepare to celebrate our centennial, we are optimistic about what the future holds for Hilton, and believe we are well-positioned to continue driving growth ahead of industry trends. For 2019, we expect RevPAR growth, together with strong net unit growth, to drive significant free cash flow generation, enabling us to execute on our disciplined capital allocation strategy and to continue delivering returns for shareholders.

With that, I'm going to turn the call over to Kevin to get into more details in the quarter and our outlook for the year ahead.

## Kevin J. Jacobs

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

Thanks, Chris, and good morning, everyone. In the quarter, system-wide RevPAR grew 2% versus the prior year on a currency-neutral basis at the lower end of our guidance range. Slower than anticipated growth in transient, largely due to softer leisure demand across the U.S. and Asia Pacific regions, weighed on results. Group RevPAR exceeded our expectations increasing nearly 4%. We estimate that calendar shifts and weather events tempered system-wide RevPAR growth by roughly 40 basis points.

Adjusted EBITDA of $544 million exceeded the high end of our guidance range, increasing 12% year-over-year. Our performance was largely driven by better-than-expected license fees and upside across our ownership portfolio, given RevPAR gains in London and Continental Europe.

In the quarter, management franchise fees increased 14% to $532 million, ahead of our expected 9% to 11% range, as results continued to benefit from strong net unit growth and better performance from our co-brand credit card program. Diluted earnings per share, adjusted for special items of $0.79, also beat expectations.

Turning to our regional performance and outlook, fourth quarter comparable U.S. RevPAR grew 1.1%, entirely driven by ADR growth. Solid group trends supported results, but growth was somewhat tempered by softer transient, given the weather and calendar-related disruption.

For full year 2018, U.S. RevPAR grew 2.2%, given expected upticks in performance in group and business transient and consistent levels of performance in leisure transient. For full year 2019, we forecast U.S. RevPAR growth consistent with our system-wide guidance range based on expected steady fundamentals and continued pricing increases.

In the Americas, outside the U.S., fourth quarter RevPAR grew 6.9% versus the prior year, given an uptick in trends across Mexico coupled with strong ADR growth in Canada, similar to trends throughout the year. For full year 2018, RevPAR grew 6.1% in the region, and we expect full year 2019 RevPAR growth to be in a range consistent with our system-wide guidance.

RevPAR in Europe grew 7.2% in the quarter, driven by stronger than anticipated transient trends, particularly in London as increased U.S. travel to the UK boosted results. For the full year, RevPAR in Europe outperformed expectations, increasing 6.9% as a result of strong transient gains, most notably in Vienna and London.

We expect full year 2019 RevPAR growth in Europe to be consistent with our system-wide range, given continued strength in transient trends in markets like Turkey, partially offset by tough comps in Russia following last year's World Cup and uncertainty surrounding Brexit.

In the Middle East and Africa region, RevPAR was slightly positive in the quarter. Similar to trends we saw in prior quarters, leisure transient gains in Egypt were largely offset by declines in the Arabian Peninsula due to supply-demand imbalances.

For full year 2018, RevPAR was up 1.8% in the region. For full year 2019, we expect RevPAR growth in the region to be roughly flat, given weaker expected inbound travel to Egypt and continued softness in the Arabian Peninsula.

In the Asia Pacific region, RevPAR increased 3.4% in the quarter following a broader slowdown in leisure transient demand, stemming in part from decelerating inbound travel coupled with impacts from weather conditions and natural disasters. Softening domestic leisure demand in China also weighed on growth in the quarter, with RevPAR up just over 5%.

For full year 2018, RevPAR in the Asia Pacific region grew 6.5%, largely driven by strength in China, particularly in the first half of the year. In China, RevPAR increased approximately 10% for the full year. For full year 2019, we expect RevPAR growth for the Asia Pacific region in the mid-single digit range, with mid to high-single digit RevPAR growth in China accounting for continued deceleration in economic growth.

Moving to guidance, for full year 2019, we expect RevPAR growth of 1% to 3% and adjusted EBITDA of $2.24 billion to $2.29 billion, representing a year-over-year increase of approximately 8% at the midpoint. We forecast diluted EPS, adjusted for special items and under our updated definition, of $3.66 to $3.78.

For the first quarter, we expect system-wide RevPAR growth of 1% to 3%. We expect adjusted EBITDA of $470 million to $490 million; and diluted EPS, adjusted for special items, of $0.73 to $0.78.

Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return, we paid a cash dividend of $0.15 a share during the fourth quarter for a total of $181 million in dividends for the year. For the full year 2018, we returned $1.9 billion to shareholders in the form of buybacks and dividends.

In the first quarter, our board authorized a quarterly cash dividend of $0.15 per share. For 2019, we expect to return between $1.3 billion and $1.8 billion to shareholders in the form of buybacks and dividends.

Further details of our fourth quarter and full year 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 be from Joe Greff of JPMorgan. Please go ahead.

### Joseph R. Greff Q
*Analyst, JPMorgan Securities LLC*

Good morning, everybody.

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

Good morning, Joe.

### Joseph R. Greff Q
*Analyst, JPMorgan Securities LLC*

I'd start-off with a question on pipeline and rooms growth and not necessarily RevPAR growth. Obviously, the rooms growth in the fourth quarter was much stronger than what we had modeled, and if you look at the pipeline at the end of the year was down a little bit sequentially. How much of that sequential pipeline decreased as a function of just more rooms opening up? And to what extent, is it just a calling of some of the stuff that's under construction? We can understand the pipeline change a little bit better.

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

Yeah. It's a combination of things Joe, but a good question and one that we've been getting a lot. So, I'm glad you asked it and happy to answer it. First, I would look at the full year, because quarter-to-quarter there's always noise going on. If you look at the full year, pipeline was up 6%. We would fully expect as we think about this year and we go through this year that we will again end the year with pipeline up. It may vary quarter-to-quarter, but we think that directionally it will go up.

I think in the fourth quarter, two things happened both of which you noted. We came in much hotter on deliveries, which was great, which was why net unit growth instead of being in the mid-6s ended up basically at 7%. But the downside of that is it comes out of the pipeline when it's delivered. Of course, when it's delivered, they're paying us fees so we'd much rather get into that state than in the pipeline. And then we always, throughout the year in this case at the end of the year, sort of look at everything that's under construction, and things that we don't think are going to really happen over a reasonable period of time, we clean those up. And so it's a combination of those two things.

And the second part of that that's important, not a nuance in a sense, because when we clean those up and get them out of the pipeline, it allows us an opportunity to replace those deals. If you leave deals in the pipeline that aren't going to happen, you've taken a location out of place. So, we try to be really diligent. We're great with our owners. If they need a little bit more time, obviously, we try and work with them. But at a point where we think it's really not going to happen, we want to get it out.

So, it's a combination of those things. Again, 6% up year-over-year, I would think when we end the year, certainly based on what we're seeing, you will see sequential improvement year-over-year through 2019.

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Joseph R. Greff
*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks, Chris.

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

A

Yeah.

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Joseph R. Greff
*Analyst, JPMorgan Securities LLC*

Q

And then as my follow-up, both you Chris and Kevin referenced that later in the fourth quarter, later in the year, you saw some leisure transient softness, I think you referenced it in the U.S. and China. Can you talk about that? How much of it may be driven by one-time things that were disruptive to travel versus something that's more macro in nature? Can you help us understand maybe what some of the drivers there were? And that's all for me. Thanks.

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

A

I would say the bigger declines that you saw if you look across the world in leisure transient were in China for the reasons that I think are pretty obvious in terms of both trade war issues as well as slower economies as well as some weather related things that were going on. We did see some of it in other regions as well, Middle East, Africa, we saw some weakness in leisure transient. And in the U.S., I would say it was reasonably modest in the U.S.

And I would say not to avoid the question, looking at the end of the year, even looking into January, it's very difficult, particularly at the end of the year with all the noise related to the overlapping weather issues, the change in day of week, year-over-year as well as the holiday shifts. As much as I'd love to say, I can't give you really scientific hard stats on exactly what happened with leisure transient at the end of the year and in January, it's just hard to do.

I would say we didn't see a dramatic difference. If you look at the full-year, it's interesting. We went into the year – I think on this call last year, we said here's what we think is going to happen. We think group is going to pick up because it's getting stronger and we have a great position. You'll remember in 2017 we had quite an anemic year and as an industry. In corporate transient, we said we think we're going to see a nice pickup coming out of tax reform and we think leisure transient is generally going to hang in there. Basically that's exactly what happened for the full year.

At the end of the year, when you got into third quarter to a degree and definitely in fourth quarter with all the noise on holidays and weather impacts, it's just that the data got very garbled and it got very choppy. So I think time will tell. I think our view is that the guidance of 1% to 3% is that group is hanging in there really well. I think if there's an expectation that you are going to have broader economic growth that is still good in the U.S. and good around the world, but a little bit less than what people thought a quarter ago. But that will ultimately mean that both leisure and business transient will be a little bit less than what we might have experienced last year and that's sort of baked into the 1% to 3% guidance that we gave.

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Joseph R. Greff
*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you, very helpful.

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

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Carlo Santarelli
*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey, guys. Thanks. I just have one and I appreciate the comments in the call thus far. With respect to the capital return, the range that you guys have provided is a little bit wider and acknowledging that there were one primary, but really two exogenous events that kind of beefed up your buyback in 2018. As you think about the range for 2019, with respect to the buyback and excluding the dividends, other than kind of the leverage profile that you're looking to target, how are you guys kind of thinking about within that range, what are the key drivers of being towards the high-end as opposed to the lower end?

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

A

Yeah, Carlo. It's good question. I'll start with the range. Yeah, the range is, obviously we gave it, so you could see it's $500 million. Actually, it's only a touch wider than the range we started out with last year. And at the end of the day, it's a 0.25 turn of leverage on our EBITDA base, not even a 0.25 turn of leverage. And so the way we thought about giving guidance was we set the midpoint at 3.25 times leverage. So, based on the EBITDA forecast we have and the capital return at the midpoint, that would leave us at 3.25 at the end of the year, which as you know is at the midpoint of our stated range of 3 to 3.5 times. And so – and then what we tried to do is bracket it at a 0.25 turn, 2.50 on each side from there.

And you're right we did have a couple of events, opportunities last year to buyback and outsize the amount of stock and bring a little bit of stock buybacks forward into the earlier part of the year. And that combined with a little bit of extra cash we had at the time enabled us to lean in on, particularly on the HNA transaction. And so as the year plays out this year, we've given a little bit of a wider range and it will be the same type of analysis; if we see opportunities to buy a little more, we might do a little more. If we don't like the way the world is headed or how we feel about the outlook for the economy, we might do a little bit less.

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Carlo Santarelli
*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thank you, Kevin.

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

Sure.

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

Harry C. Curtis
*Analyst, Nomura Instinet LLC*
Q

Hey, good morning, everyone. A quick follow-up on Joe's question.

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

Good morning, Harry.

Harry C. Curtis
*Analyst, Nomura Instinet LLC*
Q

Good morning. Wanted to get a little bit more detail on the pipeline in China, does it stand to reason that as their economy slows that the pipeline refill should slow as well?

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

You would – it would stand to reason, yes. That is not what our experience has been to-date. Our pipeline, we believe in China is in good shape and we believe it's continuing to grow. I talk with the teams multiple times a week and we still have a lot of activity.

Now the nature of the activity has been discussed on a number of prior calls has definitely been shifting more towards mid-market opportunities than higher end opportunities. We're still certainly doing a bunch of Hiltons and Waldorfs and Conrads and DoubleTrees and even Embassy now. But more of the bulk is shifting to mid-market.

And China for us right now that really is Hampton by Hilton and Hilton Garden Inn. That stands to reason because what's going on is growth in the middle class. They want to travel and that's what they can afford. So we – I think, we continue to see that now the bulk of the pipeline growth coming from that, and so far so good.

The relationship with Plateno is working out well. They continue to actually ramp up their activities. So, yeah, I mean if the China economy slows down – continues to slow and stays growing at a slower pace, I do think at some point it will have – it has to have a ripple effect.

But I want to be clear that we really haven't seen it. We delivered in China last year about 11,000 rooms in NUG. That was up close to 50% from the prior year. And based on what's in the cooker right now that I'm pretty darn confident will happen we'll be up another third, 30%, 33% this year.

So that's – and some of those are short – relatively short gestation because the Hampton Inn opportunities move fast. I mean, they're moving through the pipeline in a 12 or 18 months sort of timeframe. So, so far so good.

But China will have ups and downs, just to be clear, just like every other market in the world. The long-term trend is up. And if you draw a line through it over the next 20 or 30 years, it's definitely going up. But they'll have the ups and downs just like the U.S. pipeline and deliveries too. But right now we're in pretty good shape I think for the next probably two years, given what we have in the pipeline and what's sort of already under construction, in addition to now having conversion opportunities which is kind of a new thing in China. I think, we'll do more conversions this year in China than we've ever done. I think, we're feeling very good about the next couple years in China.

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Harry C. Curtis
*Analyst, Nomura Instinet LLC*

Q

Very good. And then the follow-up question is you're making some nice progress on development of the luxury portfolio. Can you walk us through what that pipeline looks like? And where you are today and thinking ahead maybe two to four years where you're likely to go with the luxury portfolio?

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

A

Yeah. We are – thank you for saying it. We're very proud of what we've been doing in luxury. We've been at it for a long time. I've been here 11 years, going on 12 years. And it's one of the first things that we started working on when I got here is making sure that we had the aspirational product in the portfolio for all of our customers and importantly our most loyal customers in Honors. That's the kind of product they want.

As you know we've been doing it the old-fashioned way. We have not been out buying things. But I suspect that is not something that will be in our future because there's nothing that really we think is really possible. And so, yeah, we've been grinding it out and doing it the right way and in focusing on both the existing brands of Conrad and Waldorf, but also was adding brands to the portfolio, importantly LXR which we talked about earlier; Canopy in the lifestyle space.

And the possibility of other things that are in the skunk works right now that would add to our luxury lifestyle brand portfolio. And I would say, my belief and I've been at it now as long as I've been here, as I've said is that we really hit stride in the sense of we have become the fastest growing luxury brands of the major players. And we are starting now to really be able to find ourselves with both Conrad and Waldorf and Canopy in the right locations, in the right cities, both from an urban and resort point of view to where we're creating a real distribution network that matters. I think these are brands that are really starting to resonate based on the research that we do with our customer base and more broadly.

And I think the next – as when I said I think we've hit stride, I think over the next three to five years you're going to see some pretty amazing things happening within both these brands. We're getting ready to open up a spectacular new Conrad in Washington D.C., downtown D.C., in the next 30 days. I was just in the Waldorf, New York last Monday doing the model room review. That is – if you look in that building, there's a lot going on that's happening.

We're hopeful that that's going to deliver in 2021, and it absolutely will be a spectacular product. Couple weeks ago I was touring the under construction Waldorf in London in the Admiralty Arch building facing Buckingham Palace, which will be an absolute jewel box. And a whole bunch of others that are coming that really add to what is a growing, but very special portfolio.

So I feel really good about where we are. I mean, technically in Waldorf today we have 31 hotels open. We've got another 19 in the pipeline. I mentioned a couple of those. Similar statistics for Conrad, 33 open and 19 in the pipeline and great things happening; San Francisco. I mean I won't go through the whole list. But suffice it to say, we've looked at the world and figure out like where our luxury customers wants to be, and we are hard at work if we're not already there and making sure that we get there in a relatively short period of time.

So I think it's working. I think if we look at the share numbers in those brands, they've been growing at a really nice pace. What our customers are telling us is very positive, and I think we're really starting to hit stride.

Harry C. Curtis
*Analyst, Nomura Instinet LLC*

Q

Very good. Thanks, everyone.

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

A

Yeah.

**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

Hi. Good morning, everyone. Chris, I just wanted to go back to China for a quick moment. And one thing we've seen in the data is that Hilton continues to pretty meaningfully outperform some of the broader industry data in China as it relates to what we see in RevPAR in that market. I'm sure this has to do with probably a variety of different mix factors. But when you guys kind of look at your own experience, I mean, could you just help us maybe parse apart a little bit. Do you think you're benefiting from city mix, market share gains, brand mix, ramp up of new properties? What's helping drive some of the strength that you're seeing here? Just on an overall absolute basis. I do understand that obviously slowed sequentially?

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

A

Yeah. No, it's a good question. As I would say about a lot of things, it's a combination of things. It's not any one thing. But I think the properties that we're opening are spectacular properties in really good locations. We've been incredibly disciplined about what we're doing, who we're doing it with, what markets, what brands, to get it right; and that is helping us. If you look at market share numbers, our market share numbers are growing at a very rapid pace.

I don't have the exact China number, but in APAC, we grew market share numbers which would be driven largely by China, almost 300 basis points. APAC, overall, we are now driving system-wide market share of 115, and China would be comparable to that. By the way, that eclipses our U.S. market share which also grew in the year. So we are driving great properties, great commercial delivery, driving great performance that is taking share from the competition.

There is also – in fact even though you're looking at comp numbers, many of the – in China, particularly at the upper end, less so at the lower end, but if you look at like DoubleTree and above, the ramp periods in China are longer than you would find in the United States as an example. And so, we do get the benefit, even though year-over-year these are comp and they've been in the system. They're still ramping in a way that is more significant than you would find in other parts of the world. So we're clearly getting a benefit in that regard too. But the largest part of it honestly is we're driving huge amounts of share growth.

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

Q

And I mean that's interesting on the share growth. So then just to follow-up with that. I mean, you mentioned location being a critical factor there. Is there also a piece of this that's critical mass of brand awareness? I mean, I think if we were to rewind a decade ago, Hilton was probably a little in a different place as it relates to sort of maybe brand awareness in China, but obviously been super aggressive there. So is that a piece of it? Or kind of how would you measure that or look at that?

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

A

Definitely. I mean, our brand awareness has always been pretty good, honestly, but it is much, much better. So it's partly that. It's also commercial infrastructure. We made the decision years ago, like five, seven years ago to probably – more than that, probably seven to nine years ago relatively early in my tenure.

Even though we didn't have many hotels that we were going to invest in the commercial infrastructure to make sure that we built the neural network to deliver commercially for our owners. Because if you want to grow there, and we're using third-party money and you open a bunch of hotels and they don't do well and they tell their friends, it doesn't really work out so well.

So we sort of invested ahead of the growth curve. Remembering 11 years ago when we had five hotels in China, so we had a very small business. Fast-forward today, open and in the pipeline, we've got 450, 500 hotels. So we knew what was coming. And we said even in back in our private days, we need to invest ahead of that, right? Now, we've grown into it, obviously, with the scaling of the business, but we built critical commercial infrastructure there to allow us to deliver in addition to having the right properties with the right owners in the right locations and having brands that resonate. There's a whole bunch of investment that's gone on every time into commercial delivery.

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 Thomas Allen of Morgan Stanley. Please go ahead.

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

Q

Hey, good morning.

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

A

Good morning.

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

Just in terms of distribution, you highlighted that you had seen a good increase in loyalty member distribution, but could you just talk about the mix between OTAs, property direct, call centers, et cetera, and how that's shifting? Thank you.

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

Yeah. I mean I think the short answer on that is as you can see with our latest campaigns with Anna Kendrick and a whole bunch of other things, we're very focused on driving direct relationships and direct business. And if you look at our web direct channels, they are – they remain the fastest-growing channels that we have and growing at a much faster rate than OTA channels.

Now, we still believe there's a lot more that we can do. As we have said, our book direct efforts which are more than marketing – there's a marketing element to it, but making sure that the value proposition is the most compelling value proposition from the standpoint of how we price our products, from the standpoint of the technology, and the other things that enable a better experience for folks that are part of our Honor system and have a direct relationship.

We are going to – we are in a mode of we're going to constantly be reinvesting and focusing on that, so that will be an always-on effort. But it's working. And if you look at the numbers for the year, our web direct channel of all types grew three times the rate of other channels.

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

Helpful. Thanks. And then you highlighted the strength in the credit card business in the fourth quarter. Kevin, is there a way to quantify it and talk qualitatively or quantifiably how that should benefit or how that should go forward in 2019? Thanks.

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

Yeah. Sure, Thomas. So, in the – yeah, in the fourth quarter we had a great quarter in that program and the card products have been very well received by consumers. And it's still a relatively new program, so it's starting to get its legs and ramp up.

Our signings – our card signings in the quarter were up almost 25%, with spend in the quarter up kind of mid-single-digits and so the way to think about that going forward is as those signings mature and we get more spend and program gets more popular, we expect that to continue to increase with increases in spend next year expected to be well in excess of that mid-single-digits this year. So, we're very positive about the outlook for that program.

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

Perfect. Thank you.

**Operator**: The next question will be from Wes Golladay of RBC Capital Markets. Please go ahead.

Wes Golladay
*Analyst, RBC Capital Markets LLC*

Q

Hey, good morning, everyone. I want to go back to maybe some market share data. Do you have the overall RevPAR Index and how that's trending for the portfolio, your direct bookings percentage, and then your share of global hotel supply?

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

A

Sure. In terms of index, here's what I gave you. I shared a teeny bit of it relative to APAC in my earlier comments, but I can give you across the board. So U.S. market share ended last year, a little over 114% which was up 80 basis points system-wide U.S. EMEA as – we have sort of three mega regions. So EMEA finished the year at 116%. Again, I think I noted on the last call, given that we are a capital-light business and depending on third parties to build hotels for us to continue to grow, there's no more important statistic that we look at than our market share because that's what people – why people are making that investment.

And for the first time ever these numbers I'm giving you are reflective of the EMEA and APAC not only having great share growth and I'll finish giving you the numbers, but eclipsing our U.S. market share. So, reflective of the fact that we are now creating this network effect and have made – have brands and enough distribution, enough commercial capabilities, as I described in APAC, that the whole ecosystem is working really well. So, EMEA ended the year 116%, up almost 200 basis points. APAC ended the year at 115%, up almost 300 basis points. So, if you blend all that together a bit over 114%, just given the heavy weighting of the U.S.

In terms of our direct business, our direct channels represent about 75% of our overall business. If you look at all our web channels, those represent about half of that roughly. And 40% or 50% of that is sort of on our app, which is growing at a pretty astronomical rate. Obviously we like that. That's where we want to continue to push as many of our loyal customers as we can. That's our absolute most efficient channel, so we're really pleased with the progress there.

Again lots of incremental strategies in play, which we won't get into in detail on this call, to continue to give our customers even more reasons to want to go through those channels, because it's a better price, a better deal and the experience will be better because of all of the other things they get with technology and otherwise as a result of being a member and buying that way. What was the last question?

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

A

Share of global hotel supply.

Wes Golladay
*Analyst, RBC Capital Markets LLC*

Q

The global hotel supply?

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

A

Share of global supply were like 5%, I think. Something like that. So, we're almost four times that in terms of share of rooms under construction in the world. Last number, I saw was about 5%.

Wes Golladay
*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks a lot.

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

Stephen Grambling
*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, thanks. I guess, as a follow-up to your comments on conversions being a new thing in China and also the comments on brand awareness improving there. You've mentioned in the past that conversions tend to ramp during tough backdrops and can buttress softer new construction. But how do you think about the economics to run an independent versus a Hilton brand? And how they have evolved over the past kind of nine years of expansion? And as we think about how that may dictate conversions if the environment stays challenged.

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

A

Yeah, good question. Thanks, Stephen. Conversions did ramp up last year. I mean, we went basically from 20% – 20% and change to 25%. I've said on other calls, I mean, we peaked in the – through the great recession in the low 40s. That was an unusual time. I suspect we will not get back to those kind of numbers. But I think, clearly, as conditions got a little more challenging throughout last year, financing got a little bit more difficult over the last couple years. We've seen more conversions than I'd suspect we will again, both because I think in the U.S. you'll see some ramp up in the opportunity. But also as I suggested, in APAC and certainly in EMEA, where we've already had those opportunities, you'll see an uptick.

And of course, we've been adding brands to make that more possible. In the last go around of the Great Recession, we basically had one core conversion brand and that was DoubleTree. And it was a gift that has given us a lot. I mean, it really has performed well in every regard. We still have DoubleTree, but it has broader distribution.

Now we have Curio, Tapestry, LXR in addition to DoubleTree. And of course, we have Hilton and other opportunities as well. So, we feel very good about sort of positioning ourselves to take advantage of it. I do suspect that you're in a trend – you will see a trend line that is inching up from the low 20s to the mid-20s. And I think, I suspect it will keep going.

The value proposition at a high level is pretty straightforward. The reason it come into the Hilton system, we just talked about. It is really twofold. We think in almost every case, we can drive better revenues. Our system will drive better revenues.

Our average market share around the world is over 114%. That suggest that versus the average, we're doing – we're driving 14% higher revenues. That's a lot of revenues, okay? And, yes, they got to pay us, but that's a lot of extra revenues to pay with.

The other thing that we afford them through both our deals with all of our distribution partners, as well as opportunities with our supply management function, we afford them cost synergy opportunities. So we believe we can significantly, in most cases, lower distribution cost and significantly lower the cost of their buying certain products and services, if they attach themselves to HSM, Hilton Supply Management. And so, it's a powerful combination when you put it together, driving a big premium on revenue and reducing expenses, means more profits. And there's plenty enough, we think, in almost every case, to pay us our fair share and for them to make a lot more money, which is why a lot of people choose to do it.

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**Stephen Grambling**
*Analyst, Goldman Sachs & Co. LLC*

Q

That's great color. I guess, as a very quick follow-up, just to make sure I heard you correctly, I guess, on China, is there any reason why that trend would be different as we think about the potential for conversions?

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

A

Yeah. I think that the reason is never – first of all, China is weakening a little bit, right? So they've been in a prolonged expansionary phase. And while they're still – let's keep it in perspective, they're still growing at 2 to 3 – 2.5 times the rate of the United States and the West and maybe if you put Europe in there, more than that. They're still growing at a good pace, but at a lower pace than they've been growing for a long time. So that's one situation.

The other thing that's going on is you had a big boom over the last 20 years. But really over the last 10 to 15 of deals getting done and a lot of those deals are coming due. So you have relatively new hotels that have been built in this cycle, where they're at the end of their term of contract. You put together a little bit weaker environment in a world where people have optionality and we're driving industry-leading market share, we think that bodes well for our opportunity.

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**Stephen Grambling**
*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks so much.

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

A

Yep.

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

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**Anthony F. Powell**
*Analyst, Barclays Capital, Inc.*

Q

Hi, good morning. You mentioned the 14 million new Hilton Honors members, there are a lot of changes in the hotel loyalty program space last year. Do think you may have gained some mind share among the loyalty-focused customer at the expense of some others given some of those changes at your competitors?

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

A

I mean, it's really hard for us to know, I mean, clearly we're experiencing very high growth rates. We don't think by the way those growth rates are going to abate this year. Our goal is to have over 100 million members, when we finish this year. And I'm highly confident that we will be able to do that. So we think that the pace will continue. We have done a bunch of stuff, which you can see and that has been publicized throughout the system, both the lower tiers, but particularly at the higher tiers to make the program more appealing and it's resonating.

Obviously, we're getting members from somewhere, people that are already frequent travelers. So to some degree, I suspect that we are benefiting by getting members of other programs that are shifting their loyalty. What we're focused on is really just creating as I said a hyper compelling reason why people want to be a member of our club.

Like, that Honors isn't just about points, Honors is about getting the best value by points, by price and it's about getting unique experiences both with the technology and other ways like our relationship with Live Nation and Formula 1 and a whole bunch of other relationships that are just things that are hard to replicate and that people experientially like and choose to sort of migrate their way towards us. So I can't give you hard data, unlike who's come exactly from where and to a degree as long as they are great customers that we can get engaged with us, we don't care. We want them in the system.

The thing that we didn't say that I'm actually most proud of, it's really important to have a big – we all focus on like we got 85 million, we're going to have 100 million and that's great. It's a big number, right? And it's growing and it's going to keep growing at a great pace.

What's most important is engagement. It's like how many of those members are actually actively engaged with us that are coming, staying with us. And I'm going to say, I know what the number is now. I think five or six years ago, I think we would have said we probably had 15% to 20% of that number that were really engaged; today, 50%. So half the 80 million, 42 million, so a teeny bit less than half, we would view as are engaged with us, right? That they are actually – they have recent stay activity and purchase activity. That's a big deal, right?

Big numbers are great. How many people are actually buying? I mean, by the way, we could auto enroll the whole world if we wanted. We could have a billion people if we wanted. But that's a lot – that's a – my team doesn't like that idea. But it's really, how do we get people in the program that can get engaged with us and staying with us and buying our products. And that statistic I think is a really, really important one.

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**Anthony F. Powell** Q
*Analyst, Barclays Capital, Inc.*

Got it. And I think you mentioned earlier in the call that you expect rate growth to play a bigger role in RevPAR growth of the U.S. this year. That's interesting given price power has been soft recently. What gives you confidence in your ability to push rate a bit more?

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

Well, I mean, if you look at fourth quarter, 100% of our growth was rate. If you look at the whole year in the U.S., 80% of our RevPAR growth was rate growth. I think it will be similar this year. So that's what gives me the confidence.

Now, you would I think argue, well, but it's not a high number; and I would say you're right, but there are other reasons for that. I think the other reasons for that, which I've talked about a lot and I think has come up on prior calls have more to do with the fact that you're in a sort of low compression environment. The overall economic growth is fairly tepid. Inflation throughout this period has been fairly tepid. You've had a lot of volatility particularly in the U.S. around politics and things that create caution. And so, I think, as compared to prior cycles where you had much more robust broader economic growth, that sort of flowed through. So I think it sort of stands to reason in what has been a relatively low growth environment that's what you get.

The other thing that's going on that I don't think many have focused on is, what's going on is really good, in the sense that – but it affects the rate growth numbers over the last several years, and that is mix of business. So if you look at the overall system-wide occupancy for Hilton, we are over 300 basis points higher occupancy than we've ever been in our 100-year history.

Why? The bulk of it is weekends and off-peak times. We've just gotten much smarter about filling up. Well, is that good? Sure it's good because we make money. Our job is to drive returns to our owners, and they are getting a rate that they make money on and their bottom line profitability on an absolute dollar basis is higher.

The consequence of it though is when you look at rates, it creates a scenario where that business, by definition, on weekends is at a lower rate. And so, when you blend in that mix at a lower rate, it dilutes the story on rate growth, which I think is an illusion. Obviously, our owners and we are much better off with that incremental business even though when you blend it in, because it's a lower-rated business, it dilutes the rate growth story.

And so I think, again, this is super positive for our owners that we're able to do this. And we have not been of the mind that there is a big rate issue that's sort of out there. It's short of what I just said, short of mix and really a low compression environment.

Anthony F. Powell
*Analyst, Barclays Capital, Inc.*
Q

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. I wanted to ask about group business, because I know it's probably difficult to get visibility and then there are trade wars and government shutdowns and things that you don't know when you're giving guidance. But just kind of looking at last year, it looked like initially you thought group would be up mid-single digit. And then, there was a point during the year you got more conservative, thought it would be up 3% to 4% and it came in at 4%.

So I guess just thinking about your expectation for 2019, you talked about being up mid-single digits. Can you tell us maybe what group bookings came in in Q4 versus the same time last year, just so we can think about sort of the incremental like how the outlook is changing in the most recent months?

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

Yeah. Robin, it's a good question. I think what you're referencing is earlier in the year we were talking about the business on the books being up mid-single digits, which is what it was. And for the fourth quarter, it ended up realizing at 4%. So pretty close to where the book was.

Our book for 2019 is also up mid-single digits. That doesn't mean that's exactly where it's going to realize because it depends on how many members of the block show up and what they decide to pay and who decides to cancel. And as you know, there's a lot that goes into it, but I don't know why. Built into our expectations, as we said, is the group businesses will remain solid. And so, we'll see what the experience ends up looking like in 2019. But the business on the books is still up in the mid-single digits.

Robin M. Farley
*Analyst, UBS Securities LLC*

Q

Okay, great. And then, just also a follow-up on the leisure commentary. I know you've talked about some of the issues in China where the bigger declines were. But just looking at the U.S. rates, there was some modest leisure decline. Is that what's sort of related to weather or calendar thing? Can you talk about how leisure looks to the degree that you have some visibility so far for Q1 in 2019? In other words, is that sort of softening, I don't want to use the word softening, if that's not the word you'd use. But are you seeing that a little bit here in early 2019 as well?

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

A

Yeah. I would say it was noisy at the end of last year for the reasons that you've highlighted. All the movements of pieces around day of week, around holiday, around the overlapping weather. And it's been noisy; it was noisy in January largely to do with the government shutdown. So, again, I'm not trying to be evasive. It's hard to judge it right now.

I mean, to be perfectly fair, we think our expectation for the year is leisure is going to be fine, that leisure is going to grow. We think it'll probably grow less than last year. We think business transient will probably grow less because we have an expectation that's based on consensus view of the world that broader economic growth is going to be a little lighter. When we look at the trends that we see in January, they're noisy, but we can get a decent sense of February and March. We think that they are supportive of the range and outcome that I just described and that we've given you today, which would be a little bit lower than last year.

Robin M. Farley
*Analyst, UBS Securities LLC*

Q

Okay, great. Thank you.

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

Patrick Scholes
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Hi. I'm curious on what you're seeing out of Europe as it relates to forward demand, especially on the leisure side out of the UK. Certainly, we're getting some signals from the cruise lines or the floating hotels that some of the European-based cruise brands are really seeing some difficulty as it relates to travel around Brexit. Wonder what you're seeing for the hotel side?

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

A

Yes, Patrick. I mean, similar to sort of addressing a little bit on what Chris just said, it's a little bit hard to have visibility. They have their fair share of noise over there with Brexit, sort of the way we've had a little bit of noise here. And as you know, the lead time on – unlike cruises, the lead time on some of our businesses is pretty short in that area. So we've kind of given you guidance that we think the region is going to be within the range. We'd expect leisure to be within that. And there's a number of ways it could go. Obviously, the fourth quarter is quite strong in Continental Europe and London.

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

A

Driven by leisure.

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

A

Driven by leisure and U.S. inbound to the UK and t to Continental Europe in particular. And so there is a – those trends could continue, but right now we're seeing kind of within the range.

Patrick Scholes
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. Thank you. That's it.

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

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

Q

Thanks. Good morning. Chris, if you look at the front end of net unit growth really talking about application volumes and construction starts, any changes in those especially as you think about your three-mega regions?

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

A

No. I mean, overall it's been trending as you heard in the numbers in our prepared comments. Overall, it's been trending reasonably consistently in terms of the deals that we've been signing. We've obviously been converting those to construction and delivery at a higher rate of productivity. The makeup of it has shifted a bit, the U.S. not surprisingly has been a little bit slower and the rest of the world has been a little bit faster.

But the net result has been the same and that's sort of the beauty of a big global business that is diversified the way we are, and we like to think that we're pretty quick on our feet and that we're good at anticipating sort of the mega-trends in terms of what's going on with demand growth, what's going on with the flows of capital, so that we pivot in the right ways and the right time.

So I'm pretty confident we will be able to continue to do that which is why we're saying, we think we'll have another record year in signings. I actually – well, last year maybe was a little bit lighter in the U.S. and a little bit heavier in the rest of the world.

I think particularly given some momentum we have with Tru and now with the addition of Moxy – Motto that the U.S. will probably be flat to bit up this year. But the net result will be I think for the next year or two, we're sort of – we're comfortable that we can assign a similar amount to what we've been doing over the last few years.

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

Q

I take it you're not merging with Marriott to get the Moxy brand?

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

A

No, no. Freudian slip.

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

Q

Yeah. Kevin one from me, for you. I would have thought maybe the share repurchases in the fourth quarter would have been a little bit more robust given the stock market sell-off. Were there blackout period issues? Or what was your hesitation I guess at that point?

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

A

Yeah, Bill, it's good question. There wasn't really hesitation. We ended up coming in at the top end of the range. And so we did – if we – we think we were down to a range of $1.8 billion to $1.9 billion as of last earnings and we ended up at $1.9 billion. So we kept it going. And then, yeah, at the very end of the year and leading into the beginning of this year, you're on the 10b5-1 plan because blackout will remain. But we remain buying of course, but you're on a plan where you don't get to control it. So nothing more complicated than that.

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

Q

Okay. Thank you. That's it for me.

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

A

Sure.

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

Smedes Rose
*Analyst, Citigroup Global Markets, Inc.*

Q

Hi, thanks. I just – I wanted to ask you on the reduction in third-party commission group rates that you put in place I think some time ago. But we've heard that may be you put in some additional flexibility on the part of the owners or bookings and maybe you could just provide an update on that front?

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

A

No, I mean we're not going to get in, Smedes, to details on individual deals. We cut our commissions broadly across the board from 10% to 7% with third-party group intermediaries, which I assume what you're talking about. As we have always had that we have certain of our most important relationships where we have incentive systems built-in, by the way that was the case back when we were at 10%. That's the case when we were at 7%.

So that – those continue on to make sure that we're driving share in the right way and incenting behavior to get disproportionate share. I have certain players where we think it's really incremental business that our sales team maybe has less access to. So, I would say, that sort of business is as usual as we've done it. I'm obviously not going to get into individual deals here or ever. I just don't answer those.

**Smedes Rose**
*Analyst, Citigroup Global Markets, Inc.*
Q

Right. But you're not rolling back that initial...

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

No, no.

**Smedes Rose**
*Analyst, Citigroup Global Markets, Inc.*
Q

Yeah, okay.

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

Let me make perfectly clear. We are not rolling that back.

**Smedes Rose**
*Analyst, Citigroup Global Markets, Inc.*
Q

Okay.

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

We are 100% committed to the change we made.

**Smedes Rose**
*Analyst, Citigroup Global Markets, Inc.*
Q

Okay. Thank you. I just – I wanted to ask you, I mean, it looks like the U.S. – there's increasing evidence of the U.S. development cycle has potentially peaked and starts to edge down. We've talked about this before, but it's always interesting to hear your thoughts on anything you're hearing from developers on terms of lending or access to capital or just lowered return expectations as overall cost – the cost environment continues to move up?

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

Yeah, Smedes, nothing really new on that front. I mean, I think that over the course of the past year or frankly on the financing cycle over the course of the past year or so, you've seen lenders on the margin get a little bit capital, get a little bit tighter and a little bit more expensive.

Now that said, for us, the good news for us is, we've got – we fight way above our weight in terms of the number of deals that we do. Good deals can – there's still plenty of capital in the world. Good deals can still get financed, and so we continue to fight above our fair share. So that hasn't been an issue.

And of course, construction costs have been going up particularly in the developed world at double-digit rates for a couple of years now. And so you've seen broadly an overall slowdown in construction starts in the U.S., which is why you see the prognosticators predicting that supply growth is going to peak. But for us, we continue to – for high-quality projects it's still – they're still readily financeable.

Smedes Rose
*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Okay. Thank you.

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

A

Sure.

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

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

Thanks everybody for joining us today. Good discussion. We'll look forward to talking after the first quarter. Obviously, early in the year, we'll have a lot more visibility on what's going on out there when we talk next. I appreciate the time today and we'll catch up soon. Take care.

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