Call Participants

EXECUTIVES

Christopher J. Nassetta
President, CEO & Director

Kevin J. Jacobs
CFO & President of Global Development

Jill Chapman
Senior VP and Head of Development Operations & Investor Relations

ANALYSTS

Brandt Antoine Montour
Barclays Bank PLC, Research Division

Carlo Santarelli
Deutsche Bank AG, Research Division

Chad C. Beynon
Macquarie Research

Charles Patrick Scholes
Truist Securities, Inc., Research Division

David Brian Katz
Jefferies LLC, Research Division

Elizabeth Dove
Goldman Sachs Group, Inc., Research Division

Joseph Richard Greff
JPMorgan Chase & Co, Research Division

Meredith Jane Prichard Jensen
HSBC, Research Division

Michael Joseph Bellisario
Robert W. Baird & Co. Incorporated, Research Division

Robin Margaret Farley
UBS Investment Bank, Research Division

Shaun Clisby Kelley
BofA Securities, Research Division

Smedes Rose
Citigroup Inc., Research Division

Stephen White Grambling
Morgan Stanley, Research Division

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

spglobal.com/marketintelligence

Presentation

Operator

Good morning, and welcome to the Hilton Third Quarter 2024 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Jill Chapman, Senior Vice President, Head of Development Operations and Investor Relations. You may begin.

Jill Chapman
Senior VP and Head of Development Operations & Investor Relations

Thank you, Chad. Welcome to Hilton's Third Quarter 2024 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 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'll 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 Chief Financial Officer and President, Global Development, will then review our third quarter results and discuss our expectations for the year. Following their remarks, we'll be happy to take your questions.

And with that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta
President, CEO & Director

Thank you, Jill. Good morning, everyone, and thanks for joining us today. Our third quarter results continued to demonstrate the strength of our business model as strong net unit growth helped drive solid bottom line performance.

Adjusted EBITDA and adjusted EPS both exceeded the high end of our guidance despite softer-than-expected RevPAR performance. We opened more hotel rooms than any other quarter in the history of our company and surpassed 8,000 hotels in our system. We also reached a milestone 200 million Hilton Honors members in the quarter, as our award-winning program, industry-leading brands and exceptional service continued to increase guest loyalty.

Turning to results. Third quarter system-wide RevPAR increased 1.4% year-over-year, below our guidance range due to slower ramp in September following Labor Day, weather impacts, unfavorable calendar shifts and ongoing labor disputes in the U.S. Business transient RevPAR increased 2% with growth across both large corporates and small and medium-sized businesses.

Leisure trends continue to normalize with RevPAR declining modestly from post pandemic peaks. Group RevPAR was more than 5% year-over-year, led by strong demand for both corporate and social meetings and events.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

For the full year, group position is up 10% with group position in '25 and '26 up low double digits to mid-teens. Adjusting for holiday and calendar shifts, we estimate systemwide RevPAR grew at 2.3% in the quarter, just slightly softer than the second quarter and with all segments increasing.

On an adjusted basis, leisure transient RevPAR increased nearly 2%, driven largely by solid trends across Continental Europe. In the fourth quarter, we expect RevPAR growth largely in line with third quarter, driven by strong group bookings, continued business transient recovery and favorable calendar shifts, partially offset by the election and ongoing labor disputes in the U.S. Weekday pace for October is tracking up more than 300 basis points versus September's weekday pace, driven by solid business transient performance and group strength.

Company meetings and convention business continue to grow as a percentage of mix driving longer booking windows. Given year-to-date performance and fourth quarter expectations, we expect forecast full year RevPAR growth of 2%, 2.5%, and full year adjusted EBITDA growth of approximately 10%, demonstrating the continued resiliency of our business model.

Turning to development in the quarter. We opened a record 531 hotels, totaling more than 36,000 rooms, and achieved the highest net unit growth in our history at 7.8%. We marked several milestones in the quarter, including the opening of our 8,000th hotel worldwide, our 900th hotel in Asia Pacific and our 900th hotel in EMEA.

Home2 Suites, which has more than doubled in supply in the last 5 years, opened its 700th hotel and continues to have the largest new development pipeline in the industry. We continue to expand our lifestyle portfolio, opening a number of new hotels in the quarter, including the Graduate Auburn and Graduate Princeton, the first 2 openings under our newly acquired Graduate brand.

We also introduced several brands in new markets around the world, including Spark in Canada, Embassy Suites in the UAE, Canopy in Japan and Hampton in Switzerland, demonstrating the strong value of our industry-leading brands and delivering for owners.

We welcome nearly 400 luxury properties through our exclusive agreement with Small Luxury Hotels of the World. These properties, spanning 70 different countries, provide Honors members even more opportunities to book unique luxury experiences and sought-after destinations across the globe.

Including SLH and our existing luxury properties, we now have one of the largest luxury hotel portfolios in the industry. Conversions accounted for 60% of openings in the quarter, driven by the addition of SLH properties and continued momentum from Spark. We opened more than 20 Spark hotels in the quarter and now have over 6,000 Spark rooms in supply just a year after the brand opened its first property.

Spark now has open hotels in the U.S. and the U.K. and Canada, and we recently announced plans to open hotels in Germany and Austria before the end of the year. The brand's pipeline is 3x larger than its existing supply, and we expect continued launches in international markets to further boost Spark's trajectory, positioning us well for future growth in the premium economy space.

In the quarter, we signed 28,000 rooms, expanding our pipeline to more than 492,000 rooms, which is up 8% year-over-year, excluding partnerships, our pipeline also increased from the second quarter.

We signed 3 luxury deals in Greece, Japan and the UAE and 35 lifestyle properties, including a record 15 Curios. Conversions accounted for more than 30% of signings in the quarter, driven by the strength of Spark and the continued momentum across Curio, Tapestry and DoubleTree.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Construction starts remained strong, up 21%, excluding acquisitions and partnerships. We remain on track to exceed prior levels of starts by year-end with meaningful growth across both the U.S. and international markets. Approximately half of our pipeline is under construction, and we continue to have more rooms under construction than any other hotel company, accounting for more than 20% of industry share and nearly 4x our existing share of supply.

As a result of our strong pipeline and under construction activity, we continue to expect net unit growth of 7% to 7.5% for the full year and 6% to 7% for 2025. We continue to be recognized for our culture and award-winning brands.

During the quarter, we were named the top hospitality workplace in Latin America and Asia by Great Place to Work, adding to the more than 560 Great Place to Work Awards and nearly 60 #1 wins around the world since 2016. We were also proudly named the #2 workplace on the 2024 People Magazine Companies That Care list and recently recognizes Time's Best Hotel Brand of 2024.

Overall, we're very pleased with our performance in the quarter and the milestones we've achieved, our powerful network of brands to continue to be an engine of opportunity for our guests, our owners and our team members, and we're excited about our growth into the future.

Now I'm going to turn the call over to Kevin for a few more details on our results for the quarter and our expectations for the full year.

Kevin J. Jacobs
CFO & President of Global Development

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 1.4% versus the prior year on a comparable and currency-neutral basis. Growth was largely driven by strong international performance and continued recovery in group.

Adjusted EBITDA was $904 million in the third quarter, up 8% year-over-year and exceeding the high end of our guidance range. Outperformance was driven by better-than-expected non-RevPAR fee growth, lower corporate expense and some timing items. Management franchise fees grew 8% year-over-year. For the quarter, diluted earnings per share adjusted for special items was $1.92.

Turning to our regional performance. Third quarter comparable U.S. RevPAR was up 1%, driven by a strong group performance. In the Americas outside of the U.S., third quarter RevPAR increased 4% year-over-year, driven by strong results in urban markets, particularly in Mexico.

In Europe, RevPAR grew 7% year-over-year driven by key summer events, including the Olympics in France and the European soccer championships in Germany. In the Middle East and Africa region, RevPAR increased 3% year-over-year, led by occupancy gains in Qatar and Riyadh.

In the Asia Pacific region, third quarter RevPAR was down 3% year-over-year. RevPAR in APAC ex China increased 4%, led by strong performance in India. However, China RevPAR declined 9% in the quarter with difficult year-over-year domestic travel comparisons, disruptions due to typhoons and limited international inbound travel negatively affecting results.

Turning to development. We ended the quarter with approximately 492,000 rooms in our pipeline, up 8% year-over-year with approximately 60% of those rooms located outside of the U.S. and nearly half under construction. For the full year, we expect net unit growth of 7% to 7.5%.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

spglobal.com/marketintelligence

Moving to guidance. For the fourth quarter, we expect system-wide RevPAR growth of 1% to 2% year-over-year. We expect adjusted EBITDA of between $804 million and $834 million and diluted EPS adjusted for special items to be between $1.57 and $1.67.

For full year 2024, we expect RevPAR growth of 2% to 2.5%. We forecast adjusted EBITDA of between $3.375 billion and $3.405 billion. We forecast diluted EPS adjusted for special items of between $6.93 and $7.03. 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 per share during the third quarter for a total of $37 million. Our Board also authorized a quarterly dividend of $0.15 per share in the fourth quarter.

Year-to-date, we have returned more than $2.4 billion to shareholders in the form of buybacks and dividends. And for the full year, we expect to return approximately $3 billion. Further details on our third quarter results 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 as many of you as possible, so we ask that you limit yourself to 1 question.
Chad, can we have our first question, please.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Question and Answer

Operator

[Operator Instructions] And the first question will be from Joe Greff with JPMorgan.

Joseph Richard Greff
JPMorgan Chase & Co, Research Division

That back in March at your Investor Day, which feels like a long time ago for a lot of different reasons, you gave a 2025 EBITDA target of $3.69 billion. When you look at that number and the drivers getting there, what's different about 2025 as you sit here today versus this past March? I guess, in other words, a few in the industry are in this 1% to 2% RevPAR growth range for next year, do you still look at that level of EBITDA is achievable or do you need RevPAR to be somewhat higher than 1% to 2% to get there?

Christopher J. Nassetta
President, CEO & Director

Yes, that's a good question. Obviously, it's a tad early to be getting into 2025 guidance, as you know, we would typically do that at the end of -- when we report year-end at the beginning of next year. But I will give you a high-level sense of it.

I mean we are in the sort of early-ish stages of budget season, so lots of work to do. But I would say I have a reasonably, like most things, I have a reasonably strong view of where I think things will end up.

And so I'd start with sort of like how do we feel broadly about 2025, and I would say we feel pretty good about it. I've been doing this for longer than I'm going to admit, maybe close to 40 years. I've rarely seen sort of a stronger consensus view on the macro, particularly here in the U.S.

But I think broadly, and that macro view is sort of, I think, the word resiliency I used to describe our business. I think that word is getting used a lot to describe the economy. And I think there is a very broad consensus view that the economy will continue to be -- it obviously has been slowing because that's what the Fed has been trying to do here in the U.S. and to a degree, in other parts of the world, but focus on the U.S.

But it remains strong, resilient and showing positive growth. And I think our -- the consensus for you is that next year will be more of that, that we'll have positive economic growth. The odds of a recession at this point, I think, are quite low. If you look again at consensus view, I'm not an economist, but that's the view. And I talk to a lot of people, and I would generally agree with the view.

So I think as we think about as a backdrop, thinking about 2025, what's going to be the macro, which can drive a bunch of hard business, obviously. We feel pretty good about it. I think when you think about how that's going to add up, and I'll sort of give you the punch line and then I'll break it down a little bit by regions and segments.

I mean I think the punchline is my best sense, again, early in our budget season, is that next year is going to look a lot like this year from a same-store growth point of view. Now I think we'll get there a little bit differently. But I would say at this point, I think next year, we'll end up when we're sitting here a year from now, we'll be saying it felt a lot like 2024.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

If you break that down regionally, I think it's -- again, at a high level, where I think it ends up is the U.S. ends up pretty similar to what we're experiencing this year. I think if you look at Asia Pacific, I think it will be better in part because comps in China are going to get easier and there's a lot of stimulus occurring there. So I do think China will have a better year. And China -- I mean, APAC ex China remains quite strong, as Kevin suggested in his comments. And we don't see a lot that's going to disrupt that. And we have some comp benefits, particularly in the third quarter in weather in typhoons in Japan and China that will be a benefit.

So I think APAC will be better. I think EMEA will be a little bit less good than it's been. I think it's still going to be very good, to be clear. My guess is that it will probably still lead the pack in RevPAR growth in terms of our mega regions around the world. So it's not that I see a problem there. But I do think it will be somewhat less growth than we saw this year.

And when you blend it all together, U.S. about the same. APAC a little bit better. EMEA may be a little bit worse. I think you end up kind of about where you are. If you break it down by segments, again, I mean I'm homogenizing a lot of stuff together. But I think it's again a similar story, maybe with a little bit of nuance. I think on the group side, you're going to continue to see really good strength.

I said we're up in the low to mid-teens in terms of our position going into next year. So we feel really good we'll cross over with more than half the business on the books. And booking windows are extending because there's just not enough supply relative to the demand. So I think you're going to see both demand growth and pricing growth in the group segment.

I think in business transient, which will be, I think, in second place in terms of the pecking order of growth. Again, broadly, I think you're going to continue to see business transient grind up. I do think next year, we will likely surpass prior peaks of 2019 in terms of demand levels. So you will see increases in demand.

All the anecdotal and hard evidence that we're getting from most of our big accounts and our SMB business suggests that, and you will continue to have good pricing power there.

And then leisure, I think, again, a little bit like this year, you're going to continue to see normalization. What does that mean? That means, I think demand is sort of flat to maybe even down a little bit. But again, because like in all segments of life, particularly here in the U.S., inflation is down, but still stubbornly a bit high. I do believe that we'll continue to have very solid pricing power. So when you blend it all out, I think, again, it will look a lot like this year.

I think it will, depending on the segment, be balanced, as I just described. But if you blend the whole world together, it will be a nice blend of both demand and pricing the way all that sort of -- all of what I just said amalgamates together.

And listen, we spend a lot of time on this. We just did our, as we always do every quarter, our quarterly business review with the whole world. And everybody's in budget season and has got their head down. But I think the overarching sort of atmospherics with our teams around the world is consistent with what I just said, feeling pretty good. I mean, listen, we'd rather have higher RevPAR growth always, but we feel that, that's pretty solid.

And the last thing I'd say to finish my filibuster, thank you for the question, Joe, because I'm answering a bunch. We obviously feel really good about unit growth. We have given some guidance there. We've got a lot of momentum in that area. I'm sure we'll have more questions, but we feel very good about that. And so the way I would think about it is we're always trying to deliver algorithm growth, back to your initial question, which is I always say here, X plus Y needs to equal Z. So same store and unit growth need to add up. And I am very confident that algorithm will be alive and well for 2025.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Operator

And the next question will be from Shaun Kelley from Bank of America Merrill Lynch.

Shaun Clisby Kelley
BofA Securities, Research Division

Chris, just maybe on the development side, given you just talked a lot about kind of what's going on in the kind of RevPAR and macro side. Can you just walk us through -- obviously, we now have the initial expectation of 6% to 7% for next year, a little bit more about what your kind of underlying assumption is there and sort of how it might factor in, possibilities of like what could -- maybe just walk us through what could be a little bit better if the development environment were to improve? Obviously, your starts remain really compelling, and what could be a little bit worse, just what would be the kind of range or bound of outcomes there?

Christopher J. Nassetta
President, CEO & Director

I'll offer some comments, and Kevin runs development, so I should cede to him, too. I mean I do think we feel, obviously, really good about 6% to 7%. We have more visibility into that than obviously the macro. We have a view on macro that's based, as I described on consensus. But we have good visibility. We've got a lot of stuff under construction.

We have a lot of momentum on conversion. So the way I would say it is just a couple of points of clarification. One, the 6% to 7% is organic, that's not sort of incorporating partnerships, which is why this year's number is coming in higher than that at 7% to 7.5%.

I would say implied in it is about 1/3 of it would be conversions. That's about where we'll end up this year. By the way, if you take out the partnerships, we'll end up at about 1/3. If you add the partnerships in, we're about 50%. So -- but we don't, again, expect to repeat that. And that's how we get to it.

Again, it's a super granular analysis other than in the year or for the year conversions, everything is identified, meaning it's in the pipeline. It's happening. And so it's really delivering on that one. And if it's going to deliver next year, it's pretty much got to be under construction right now or in the next. There may be a brand or two in a place or two around the world, including the U.S., where you could still start something maybe with a LivSmart right now or in the next 30 days and sneak it in next year, but it gets softly hard.

So in terms of the new build stuff, we have a good sense of that. Again, conversions, we have a good sense of a lot of those. Because like Spark and other, they're in the pipeline. So -- and then there's a segment of those conversions that are unidentified.

We have a really good track record on delivering that. Obviously, those numbers at 1/3 have been moving up. We've done more than that historically, but they've moved up from the low 20s to about 1/3. And we're taking a very disproportionate share of conversion opportunities around the world, and that's because our brands are performing really, really well, and we don't see any risk of that. So what could make it like at the higher or lower end of the range. I think sort of intellectually the right way to say is maybe it has to be ultimately in the conversion space because of what I just said.

I mean maybe there's a few more that sneak under construction at the end of this year. But I don't think that's going to move the needle a whole heck of a lot. I think it's that we're more than 1/3 in the conversions. I think that's possible. I'm not saying I think that will happen and I think that's possible. We give a range of 6% to 7% for a reason, that there's still a heck of a lot of work that Kevin and our development teams around the world have to do. I hope we make it look a little bit easy. It's not.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

spglobal.com/marketintelligence

But we feel really good about that range. And so again, intellectually to do better or worse relative to the midpoint of that range is sort of is sort of conversions, more or less.

Operator

And the next question will be from Stephen Grambling from Morgan Stanley.

Stephen White Grambling
Morgan Stanley, Research Division

I guess maybe a follow-up on the NUG commentary. I guess how does the pipeline of what's in construction, just from a fee per room mix compared to the existing base? And have you seen any change in the development as rates have started to come down here and lending has loosened?

Kevin J. Jacobs
CFO & President of Global Development

Yes. Thanks, Steve. I'll take the second part first because it's a little bit easier. I think you are starting to see things free up a little bit in terms of the development environment. Rates haven't come dramatically down, but they've come down a little bit, and I think people can see a path to a better day on the capital front.

And we are actually starting to, there's a lot more conversations around change of ownership, which I think supports what Chris was just saying about conversions because you've had -- as is normal for this part of the cycle, you've had pretty wide spread between bid and ask on transactions. And transactions drive, as you know, a lot of conversions.

And so we're starting to, I think, see a little bit of a thawing in bid-ask spreads, which has led to more applications in the last 30 days or so on change of ownerships and things like that. We're starting to see more activity there, which bodes well.

And then your first part, the fees per room, we're really not seeing any change. I mean if you think about the complexion of what we're putting under construction and what we're delivering, it is still largely on an overall basis the same mix. So we're not seeing dramatic changes in the mix.

You're obviously seeing RevPAR growth over time. You're seeing mark-to-market on fees as contracts roll over. We continue to take price in terms of license fees a little bit. And the vast majority of our development actually is in the brands where we get the highest fees. And so when you put all that in the model, we're really not seeing a change in fees per room. And in fact, it will grow over time.

Operator

The next question is from Carlo Santarelli from Deutsche Bank.

Carlo Santarelli
Deutsche Bank AG, Research Division

Chris, just building on your point that you think kind of '25 looks a lot like '24. I would assume kind of RevPAR being the primary driver of that. Given the group pace that you guys currently have, and I believe you said low double digits to low teens for '25 and 2016 -- or sorry, '25 and 2026. How do we interpret kind of the way you're thinking about leisure and business transient as we move into '25 based on kind of what we know today?

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

spglobal.com/marketintelligence

Christopher J. Nassetta
President, CEO & Director

Yes. I would say, and I tried to cover it, but I'll click a little harder on it. In group, I think you're going to see a very balance -- you're going to see the highest growth rate. I mean I don't have the number -- I mean, we don't have a budget yet. But you're going to see comparable growth.

I mean, you heard the numbers we're talking about for like third quarter, up 5% or 6%. I think you're going to be looking at that kind of level of growth in the group segment, if you look at the whole world. And I think that will be pretty balanced, as I said, between price and occupancy between rate and occupancy.

I think in leisure, again, if you're solving for something in the 2s and that's at 5, I think business transient ends up being sort of more in that range, again, with a balance, but if group is in the mid-single digits, I think business transient is in the low single digits, but higher than one.

I mean, similar to this year, we're sort of trending at 2, low 2s, something like that. And then I think leisure, which again is, I think I said this, maybe I didn't, it's still trending way over historical levels. We don't think we'll go backwards. We don't think we're going backwards this year, but we think it's sort of flat.

And so I would say my expectation, and I already said this, would be demand is flat, maybe even a little bit down as you continue to normalize the work environment and the like. But because you have pretty good pricing power and you still have inflationary pressures, particularly here. But in a lot of parts of the world, we feel like we'll be able to push rate a little bit.

And so I would say we think leisure again, it's early, right? I don't have a budget in front of me, but we've talked a lot about it. I think leisure is positive, but not much positive. So I would say it's like very, very modestly positive.

And when you put those 3 things together, that's really not that far off of sort of where we're ending up this year. I mean, I think that's why I say, I think when you finish '25, at least sitting here today, it feels an awful lot like '24.

Operator

And the next question is from David Katz from Jefferies.

David Brian Katz
Jefferies LLC, Research Division

Chris, you mentioned earlier that you're getting an outsized and it's obvious amount of conversions. Can you provide just a little bit of insight on how you're doing that? Is that just good old-fashioned shoe leather, any competition or whatever other euphemism? Or are there some specific drivers because we are obviously observing key money more carefully across the industry than usual?

Christopher J. Nassetta
President, CEO & Director

Yes. I mean, listen, Kevin may want to come over the top on this because he and his team are doing the shoe leather. I do think it's partly shoe leather. I mean, listen, I think we're -- I say to our teams all the time, like our philosophy and how we run a company is we're pretty scrappy. We're pretty gritty. We don't take anything for granted.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

So we get our hustle. So our teams hustle. I don't know what everybody else is doing, but we're hustling. We've built really good relationships. So a lot of this business, not all of it, particularly in Spark because they're bringing a bunch of new folks into the system, which are going to be hugely beneficial over time, as we saw with Hampton decades ago.

But we have really solid relationships where we've done a really good job with people and doing what they ultimately are looking for what leads to what I think is really driving it, which is performance. I mean you're signing up for these deals and not to be pedantic. But these are at the short end, generally very short end, 10. But more likely, these are 20-plus-year relationships that you're entering into with no real way out.

And so these people are investing billions of dollars when you aggregate all of this development, even all the conversions, and they want to have confidence that when they're signing up, they're going to make money, but they're signing up for a long time that they've got the right system that they're signing up for. And so the truth is our track record is really good. Our brands are performing really well.

Our market share is the highest it's ever been. It's significantly higher than any of our competitors. And so that doesn't mean we don't have to compete. I say the same all the time. For this cool like, why don't we win every deal. Why should we -- why are we only winning half the deals even though we're, whatever, 6% of the global market. I'll let Kevin explain himself on that.

But getting half the business is pretty darn good. And I think it ultimately comes down to our ability over a long period of time to be able to deliver performance for owners because we can be witty, charming, scrappy, gritty. We can be all the things we think we are or hope to be. But in the end, it's about performance. They're investing money in these assets or -- and this relationship with us to drive returns.

Operator

The next question will be from Robin Farley from UBS.

Robin Margaret Farley
UBS Investment Bank, Research Division

Chris, I wonder if you could talk a little bit about how your visibility on business transient and leisure transient kind of compares to what it would have been in 2019? In other words, do you feel like you have more visibility or less visibility today?

And then if I could squeeze 1 in for Kevin just on the comments about what drove better EBITDA than guide. I would love to hear about the non-RevPAR fees. And then also I think there was a timing benefit there as well.

Christopher J. Nassetta
President, CEO & Director

Thanks, Robin. I would say the answer is we don't have a tremendous amount of incremental visibility. The place we obviously have the most visibility is in group, which is why we give you those statistics. That business is pretty darn sticky. We have found recently and over a long span of time, people have needs, they still have pent-up needs. So we feel really good about that.

But leisure and transient, I mean, leisure transient, business transient, our visibility is limited, certainly limited to 60 or 90 days out. But then anecdotally, particularly with business transient, just talking to all of our customers, which we do all the time, our sales teams, I do, others in senior management do, we survey them. We do have data that tells us what

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

they're thinking, and that gives us a rationale for what I'm saying to you I think will happen next year. But they haven't booked the business yet. Unlike groups where they booked it, they haven't booked it.

And then leisure is where we have the least visibility into the future. Now the reason I started my whole answer in my filibuster with the consensus view was obviously not lost on you or anybody else, particularly in leisure and business transient as it relates to how we think about next year, a lot of it so goes the economy to a degree, so goes those segments. So that's why it always has to start with a view -- with a consensus view of like what the heck do we think is going to happen in the economy.

It's not that the group business is immune to it. It's just stickier. It just -- it is not as immune to short-term swings over time as the other segments. So that's -- it's about -- I mean, have we gotten better, do we have better listening posts with our customers than we might have had 5 years ago? Yes, I think so. I think we're better at understanding what's going on. The reality in terms of booking visibility is about the same.

Kevin J. Jacobs
CFO & President of Global Development

Yes. And then on the -- Robin, on the non-RevPAR German fees, we were -- clearly, we were pleased with the performance. If RevPAR came in for all the reasons we talked about under our expectations, the non-RevPAR-driven fees, if you think about performance in the credit card business, in our purchasing business, things like that was all sort of above algorithm, if you will, above the overall rate of the business.

And then on timing, it was about half -- about half the beat from the third quarter were timing items if you get behind it, and so that's about all I'd say about that.

Operator

And our next question is from Smedes Rose from Citi.

Smedes Rose
Citigroup Inc., Research Division

I just wanted to ask, you talked a lot about just group going into next year, and it has been and continues to be. It looks like kind of a silver lining in the space. And I was just wondering when you look at what you're seeing now for '25 group, I guess, particularly in the U.S., is there -- is it driven more by incremental citywide conventions? Is it more smaller groups that I think have been doing well for a while? Is there anything just kind of in particular that you could call out that's helping to drive that continued strength there?

Christopher J. Nassetta
President, CEO & Director

I'd say it's a little bit of everything. If you think about what's going on, certainly, the big citywides are picking up and not surprisingly. They just -- we've been saying this on every call. This takes longer in gestation to get those -- that business going because they book multiple years in advance. They spend millions of dollars planning these events. And they went for 2 or 3 years unwilling and/or unable to do that.

And so we're certainly seeing wind in our sales from that. But we're also seeing really good social group business. I mean people still want to get out and see people. I mean, that is still a thing. And then I'd say corporate meetings are -- we're seeing really terrific demand. I mean even though the workplace is sort of normalizing somewhat, it is not going back to what it was. And the reality is a lot of people have needs and that they're making -- sort of making up for a time when they were more remote, and they need to do meetings for innovation and culture building and the like.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

And a lot of people have sort of changed pretty permanently, us included, by the way, our work environment a way where we take less space because people are more mobile, and it requires them needing space outside of their own office footprint more than historically they have. And so that's a nice little wind in our sail as well. So that's a long-winded way of saying it's broad-based. I mean there's -- it's not one thing driving it.

Operator

And our next question is from Lizzie Dove from Goldman Sachs.

Elizabeth Dove
Goldman Sachs Group, Inc., Research Division

I wanted to go back to the unit growth piece, which is obviously very strong. I believe the majority of the pipeline is coming from international just about. So a little bit of a refresh of just where you see the key opportunities, the key markets driving that international expansion, maybe a refresh on the China piece as well with the stimulus. And just in any way that you kind of have to adapt your portfolio as you take those brands to different markets?

Kevin J. Jacobs
CFO & President of Global Development

Yes. So the -- I mean, I guess the end, Lizzie, thanks for the question, is the easy part is, yes, you do have to adapt your brands and your prototypes and your room sizes and things like that, the markets around the world.

They still maintain their essence and their positioning within the brand ladder and their swim lanes and things like that, but you're obviously adapting them around the world. I think that sort of if you think about the complexity of the pipeline, it's about -- it's a little over half, call it, 55-or-so percent outside the U.S. The stuff that's under construction, just given the dynamics of some of the things that are going on around the world, our limited service business in China, things like that, it's about 80% of what's under construction is outside the U.S.

Deliveries this year are going to be sort of more like the pipeline, sort of think about it as mid-40s percent in the U.S. and 55 or so percent outside the U.S. I think the China business is doing great. We think both approval starts. I'm jumping around a little bit. But sorry, it was a broad question.

Our approval starts and opens we think will all be up in China this year. We're -- even though there's a macro slowdown in China and you read a lot of headlines about real estate bubbles and the like in China. What's going on a lot in China is they're trying to find different uses for some of these buildings and some of the real estate that's been developed. And our business, particularly the limited service part of our business, both in our Master Limited partnerships and in our Hilton Garden Inn business is able to take advantage of a lot of the adaptive reuse of those businesses -- of those pieces of real estate.

So -- and I think when you take a step back from it, though, I know you're relatively new to the coverage, but you've gone through the materials. And we outlined in our Investor Day, is kind of over the time period that we gave you for that, we think, call it, half of the NUG, 3 to 3.5 points will be in the Americas, 1 point or so will be in EMEA and 2 points will be in APAC. And that will move around a little bit year-to-year. But generally speaking, those will be the trends.

And then you'll see in the Western world more conversions. In the developed world, more new builds. In Asia, we're shifting our business to APAC outside of China. So a lot of growth opportunities there, a lot of growth opportunities in India, a lot of growth opportunities in the Middle East.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

So we're really seeing the benefit of a diversified set of products that we can deploy. And when certain parts of the world are strong, we can deploy in those parts of the world when certain parts slow down. Diversification is a beautiful thing, and we're continuing to grow through it.

Operator

And the next question is from Brandt Montour from Barclays.

Brandt Antoine Montour
Barclays Bank PLC, Research Division

Most of my questions have been asked and answered. I'm curious on SLH. I know it's relatively new, but that's a big chunk of luxury hotels in your system on the website. People can earn and burn their points. They are curious how the early traction has been, if you've done anything sort of out of the norm in terms of marketing those hotels to loyalty members and how you're feeling about the start there?

Christopher J. Nassetta
President, CEO & Director

Yes. I mean you're right, Brandt, it is super early, but in the sense that they just went in and sort of the middle end of the summer. And a lot of those properties are resorts in very unique locations that book way ahead of time. So there's only so much data we have just given the time of year it came in.

But the data that we do have is super good, meaning that our customers are engaging with it. They're looking at the availability of these properties.

Now many of them this summer weren't available because they had already been booked given when they came in the system. They are -- where they did utilize it, they utilized it in a very healthy way for redemptions, which is exactly sort of the behavior set that we're looking for.

And so I'd say obviously, a long way to go, but we feel very good about the ownership community and SLH feels very good about the start of the relationship. And I think as we get into the -- get a little bit of time, a quarter or 2 and then certainly get into the spring and summer of next year, I think you'll see some real uptick.

But you go in, like if you go on our app, I happen to do it. I was in Italy and Tuscany to meet some friends, where we have a few hotels go in the app and like hotels nearby me. And we went from having like 3 hotels to like 40 hotels. So -- and many of them are really small and very unique, but that's exactly what for a leisure, high-end leisure customer they're looking for.

And so it really gives us significant enhancement in terms of shots on goal for people to book and importantly, for people to be able to dream that are road warriors and have a place to realize those dreams.

Operator

And the next question is from Michael Bellisario from Baird.

Michael Joseph Bellisario
Robert W. Baird & Co. Incorporated, Research Division

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Chris, you sort of alluded to it, but just wanted to dig into RevPAR index and pipeline share a little bit more. Is it fair to assume that in a slower RevPAR backdrop that's maybe actually better for your business, at least on a relative basis? And then any similarities or differences that you see today compared to 2018 and 2019 when RevPAR was last in kind of stuck in first year?

Christopher J. Nassetta
President, CEO & Director

Yes. I mean it's interesting. I said earlier, so I don't want to contradict myself that we obviously always like to see RevPAR higher. And so I will say it again, I'd always like to see it higher.

But having said that, there are, and then you alluded to it in the approach to the question, there are benefits of the environment we're in. And we saw those benefits going back to that time where typically, we are able to deliver. If we do our jobs, better share in terms of performance on our existing assets. And we take in more difficult environments, environments where financing is less available, we end up disproportionately getting more conversions and more of what is available for new construction because our brands are just more financeable. And so that is certainly what we've been experiencing.

If you look at the numbers across the board on development, whether you break it apart on new construction or conversions, you look at market share numbers, which continue, I mean, they're very high. So getting -- they continue to grow. We've grown market share every single year in the almost going on 18 years I've been here. So the higher you go, the harder it gets, but we're super focused on that.

So I'm not giving you a specific answer because there isn't one. But this environment is not terrible for us in that way. And the really nice thing, as I think we demonstrated in the third quarter and will demonstrate for the full year, and I think we'll demonstrate again next year and the year after is the model is really resilient that even -- I mean, think about it, even in the environment we're in, where we're going to be in the 2s on same-store growth, we're going to deliver circa 10% EBITDA growth and higher than that and EPS and free cash flow, it doesn't -- I mean, that doesn't feel so bad.

Imagine what could be done in an even better environment from a same-store point of view. So that's not -- as I said, I know I'm not answering it specifically. But these conditions are -- we feel like whatever -- I guess I'd finalize it by saying we can't determine the macro, what we can do always is outperform competition. And so we feel good about in this environment, our ability to do that. We feel good about that and our job is in every environment to do that, and we will.

But we feel -- we're not -- this is not a terrible environment in terms of our ability to deliver.

Operator

And the next question will be from Meredith Jensen from HSBC.

Meredith Jane Prichard Jensen
HSBC, Research Division

I was wondering if you could speak a little bit about the occupancy and rate sort of offset. I know in the past, you've spoken quite a bit about pushing rate. And I'm wondering how that conversation with franchisees and hotels have gone shifted over the past few months?

Christopher J. Nassetta
President, CEO & Director

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

It hasn't really shifted. I mean, obviously, inflation is down broadly is the U.S. because it's our biggest market and we're here, sitting here in the U.S. And inflation is not running 8% to 10%, but it's still running 4%, 4% plus against the target of 2%, which I think personally will be a long time coming just because of the underlying strength in the broader economy. And one thing we talk about yet is the basic fiscal spending between chips and inflation reduction and infrastructure, you put all that stuff together, forget the private sector. There's a huge amount of public sector spending going on.

And I think all of that sort of underpins growth in nonresidential fixed investment, which drives a lot of demand in our business, which I think continues to give us a decent amount of rate integrity. And so our expectation is while that it is moderating from the hypercharge levels that you saw generally of inflation across a lot of sectors and we expect the same thing in ours.

We still expect that there's a decent amount of pricing pressure. And so as we think about, by the way, we have very sophisticated revenue management models that it's not Chris Nassetta with his hand on the button deciding the rate of every room every night, thankfully.

But we have very sophisticated systems. But those systems and all of our data scientists here at Hilton still believe that given those conditions in most segments at most times, there is good pricing integrity.

The one area that I talked about where there's probably less by nature, if you think demand might be flat or going down a little bit as leisure normalizes, particularly on weekends, there may be a little bit less pressure there.

But broadly, as I said, Mike, I think when we finish this year and next, I think leisure rates will be up, not a lot, but I think leisure rates will be up just because of the underlying macro conditions. I don't know if that answered it, but the short answer is not nothing material that we see that's different in the last few months, certainly.

Operator

The next question is from Chad Beynon from Macquarie.

Chad C. Beynon
Macquarie Research

Just a quick one, continuing on development, the guide for key money or contract acquisition costs at the beginning of the year, $250 million to $300 million, and that came down this quarter. Obviously, we only have 2 months left in the year, so you have a good sense of where things are from a key money standpoint. Kevin, I know this is something you guys highlighted at the Investor Day. But is this more of just a delay to '25? Or is this just more progress in your goal to reduce key money as a percentage of NUG?

Kevin J. Jacobs
CFO & President of Global Development

Yes. Sure. I mean, look, I think key money terms of percentage of NUG and the more strategic bid, no change in our approach. I mean we still use key money on less than 10% of our deals. We use them when we have to when it gets competitive, but 90-plus percent of the deals don't have anything associated with them. It's just a little bit of timing, right?

We're getting closer to the end of the year. We have more visibility into what we think is going to happen. A little bit of a couple of projects that we have in the works that we think are more likely to happen next year.

And if you think about last year, was a bit heavier year because of some strategic projects. This year, it will be a little bit

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

lighter. I think going forward, if you think about next year, probably somewhere in between last year and this year, but really no change in strategy.

Operator

The next question from Patrick Scholes with Truist Securities.

Charles Patrick Scholes
Truist Securities, Inc., Research Division

Kevin, a question for you. What are your ROI targets for brands, specifically developing them internally versus buying a brand? And then related to that, on these recent, I'd call them tuck-in brand acquisitions, are these initially accretive to earnings? Or if not, how long does it take for them to be accretive?

Kevin J. Jacobs
CFO & President of Global Development

No. I think, look, there's a lot there, Patrick, or we've talked about this a lot. I think when you think about, we haven't done a lot of acquisitions. So if you think about broadly you alluded to sort of buy versus build. Obviously, the ROI is near infinite when we build these brands and build them over time organically into multibillion-dollar businesses. It's sort of you do a buy versus build analysis, but it almost always suggests build from a pure ROI perspective.

And the last couple of deals we've done, they've been basically accretive out of the box, right? I think we didn't -- we disclosed that on Graduate, if you'll recall from the press release that it's accretive out of the box.

So on both of these things, they were very specific to things we wanted to tuck in strategically. We're able to take advantage of a little bit of a distress in the environment to buy them really well and they were accretive right away, as I said.

Operator

And ladies and gentlemen, this now concludes our question-and-answer session. I would like to turn the conference back over to Chris Nassetta for any additional or closing remarks.

Christopher J. Nassetta
President, CEO & Director

Yes. Chad, thanks. And to everybody that joined, thank you for the time. Obviously, a lot going on in the world. But we're really happy with how the third quarter worked out. We feel good about the fourth and the full year. And as we've talked about quite a bit today, I feel good about the setup for 2025.

We look forward to catching up with you after the years out and be a little bit more specific on 2025 at that point. And I hope everybody has a good end of the year and great holiday season when you get to it. It's funny to hear myself say that, but it's that time of year. Anyway, thanks again for the time today.

Operator

And thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

COPYRIGHT © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2024 S&P Global Market Intelligence.