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Presentation

Operator

Good morning, and welcome to the Hilton First Quarter 2026 Earnings Conference Call. [Operator Instructions]. Please note this event is being recorded. I would now like to turn the conference over to Mr. Charlie Ruehr, Vice President, Corporate Finance and Investor Relations. You may begin.

Charlie Ruehr

Vice President of Corporate Finance & Investor Relations

Thank you, Chuck. Welcome to Hilton's First Quarter 2026 Earnings Call.

Before we begin, we would like to remind you that our discussion 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 will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at ir.hilton.com.

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Executive Vice President and Chief Financial Officer, will then review our first quarter results and discuss our expectations for the year. Following the remarks, we will be happy to take your questions.

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

Christopher J. Nassetta

President, CEO & Director

Thanks, Charlie, and good morning, everyone. We certainly appreciate you joining us today. Before we begin, I'd like to acknowledge all those impacted by the Middle East conflict, and I'd like to thank our team members who adapted very quickly and continue to provide extraordinary hospitality during this difficult time. We remain hopeful for a swift resolution.

Turning to results. We're pleased to report a great first quarter during which strong RevPAR and net unit growth drove top and bottom line results above the high end of our guidance. Performance was driven by strengthening underlying demand trends along with ongoing System-wide share gains. Our industry-leading brands, strong commercial engines and powerful partnerships continue to differentiate us from the competition, while a culture of innovation fuels additional growth opportunities. All of this, coupled with our asset-light fee-based business model, positions us to continue producing significant free cash flow and driving meaningful shareholder returns.

In the quarter, we returned more than \$860 million to shareholders and we remain on track to return approximately \$3.5 billion for the full year. For the first quarter, System-wide RevPAR increased 3.6% year-over-year, driven by broad growth across all chain scales, brands and segments, as well as sequential monthly improvement throughout the quarter in the U.S.

In the quarter, business transient RevPAR was up 2.7%, representing a 4-point step-up in demand from the fourth quarter when adjusting for day of week and holiday shifts driven by improving midweek demand across all chain scales. Leisure transient RevPAR was up 3.5%, driven by concentrated spring break demand that enabled strong rate growth. Group RevPAR was up 4.3%, driven by growth in company meeting and convention demand. We continue to see healthy underlying momentum for group supported by strong growth in corporate lead volumes.

As we look ahead to the second quarter, we remain encouraged by a continuation of demand trends that we've been observing since late 2025 and now through April, but we do expect some headwinds related to the Middle East. For the full year, we expect improving performance in the lower and mid chain scales with RevPAR strength continuing to move downstream from luxury and upper upscale toward a more balanced convergence demand shape or what I have been calling a C-shaped economy. This trend should be most evident in the U.S., where supportive tax and regulatory policy, expected lower interest rates, increased private sector investment in AI and the AI complex and ongoing public infrastructure spending are benefiting the middle and lower income consumer and driving broader demand growth. As a result, for the full year, our System-wide RevPAR growth expectations are now 2% to 3%, factoring in a range of scenarios for the Middle East conflict and recovery. For the year, we continue to expect group to lead, followed by business and leisure transient.

Turning to development. During the first quarter, we opened 131 hotels totaling over 16,000 rooms representing our second strongest first quarter for hotel openings in our history. Our Luxury and Lifestyle brands continue to expand around the world, comprising 20% of total openings in the quarter. Earlier this month, in Morocco, we proudly opened the Waldorf Astoria Rabat Salé kicking off 2026 with another key addition to the Waldorf Astoria portfolio, which now includes 40 trading hotels worldwide with more than 30 in the pipeline. Additional marquee Waldorf openings in 2026 will include the Waldorf Astoria Admiralty Arch in London and the Waldorf Astoria Kuala Lumpur in Malaysia.

Within Lifestyle, our Curio Collection recently surpassed 200 trading hotels with notable openings in the quarter, including the newly built Monarch San Antonio and the converted hotel here in Alexandria, Old Town Virginia. We also expanded our Lifestyle footprint globally with the debut of Motto in Brazil. In Europe, this week, we will open a Home2 Suites in Dublin, Ireland, which marked the European debut our Home2 Suites brand, one of our strongest performing brands in the portfolio with more than 800 hotels open and over 750 in development. This positions this brand for extended rapid growth and allows us to capture even more demand from this important region.

Conversions represented 36% of openings for the quarter across 10 brands and dozens of countries, ranging from flagship Hilton openings in Malaysia, Vietnam and Thailand, and Spark openings in France, Canada and the U.S. Following our Apartment Collection by Hilton brand announcement earlier this year, we now have our first 2 converted properties in Atlanta and Salt Lake City, accepting bookings for this summer. Conversions overall are expected to be up on a nominal basis in 2026 across every region, demonstrating the performance our system delivers to owners.

Despite the current macro uncertainty, signings and starts continue to have momentum. During the quarter, we announced multiple new signings across geographies including 4 new brand signings in Turkey, 2 LXR signings in Japan, the debut of Motto in Australia and France and the debut of Tapestry in Germany. In India, we signed a strategic agreement with Royal Orchard Hotel to open 125 Hampton hotels in the market, which puts us on track to exceed 400 hotels in the market in the coming years and reaffirms our commitment to expanding in this key emerging economy. We continue to build out our presence in the fast-growing and expansive region of APAC ex China, where approvals, openings and new development construction starts were all up double-digits in the first quarter.

Globally, we now expect new development construction starts to be up over 20% for the year with the strongest growth in the U.S. and EMEA, signaling continued developer confidence and a strong desire to have hotels open in conjunction with a rebounding RevPAR environment. Our pipeline now stands at a record 527,000 rooms and includes brand debuts in more than 25 new countries with Hilton representing only 5.5% of global hotel supply and over 20% of rooms under construction, we have tremendous opportunity to grow our market share from here.

As we look ahead, we expect that our robust global pipeline, strength in conversions, construction start momentum and industry-leading brand premiums will support sustained net unit growth of between 6% to 7% for the full year even with the current geopolitical uncertainty. Innovation across our entire business is a core competency, and when deploying new technology, we're focused on broad impactful use cases to enhance the guest experience, deliver value to owners and empower team members. As we advance our strategy, we're leveraging AI to embrace the new ways customers are discovering and engaging with our brands, working with leading partners, including Google, ChatGPT and Anthropic, all while remaining focused on strengthening direct loyalty-driven relationships and maintaining discipline in how we manage distribution.

Building on this, earlier this quarter, we deployed an Anthropic-powered platform for customers to dream and shop called the Hilton AI Planner, this LLM powered tool combines our incredibly rich property content with vast information about local venues and activities to allow customers to search for and tailor an experience that is unique to their interest. The AI Planner enables guests to spend more time dreaming within our native environment which should drive incremental demand across our portfolio as customers book with us more often and more quickly. We're just getting started on how technology can customize the customer experience, and the Hilton AI Planner is one great example of how we are delivering our signature Hilton Hospitality and enhancing the dream, shop, book and stay guest journey.

During the quarter, we were proud to once again be recognized as the top-rated hospitality company by -- on the Fortune and Great Place to Work list of the 100 best companies to work for in the United States, marking our 11th consecutive year earning this distinction. We also continue to be recognized for our world-class culture globally, receiving Great Place to Work honors in 17 countries, including 7 #1 rankings.

Overall, we are very encouraged by the strength of the demand environment across all our brands. We remain confident that our powerful network effect, industry-leading RevPAR premiums and fee-based capital-light business model will continue to drive

strong operating performance, net unit growth and meaningful cash flow, enabling us to return an increasing amount of capital to shareholders.

Now I'll turn the call over to Kevin to give you a few more details on the quarter and expectations for the full year.

Kevin J. Jacobs

Executive VP & Chief Financial Officer

Thanks, Chris, and good morning, everyone. During the quarter, System-wide RevPAR increased 3.6% versus the prior year on a comparable and currency-neutral basis. Growth was driven by broad growth across all chain scales, brands and segments as well as sequential improvement throughout the quarter in the U.S. Adjusted EBITDA was \$901 million in the first quarter, up 13% year-over-year and exceeding the high end of our guidance range. Out-performance was predominantly driven by better-than-expected System-wide RevPAR growth. Management and franchise fees grew 10.4% year-over-year. For the quarter, diluted earnings per share adjusted for special items was \$2.01.

Turning to our regional performance. First quarter comparable U.S. RevPAR increased 3.4% driven by group growth trends continuing from the prior quarter, broad business travel strength and leisure demand from a concentrated spring break. For full year 2026, we expect U.S. RevPAR growth to be at the high end or above System-wide guidance.

The Americas outside the U.S., first quarter RevPAR increased 4.4% year-over-year, driven by strong demand across all segments and continued strength across the Caribbean and South America. For full year 2026, we expect RevPAR growth to be in the low to mid-single digits. Europe RevPAR grew 6.9% year-over-year led by growth across all segments. Continental Europe's strength related to the Winter Olympics and other regional event-driven demand. For full year 2026, we expect RevPAR growth to be in the low to mid-single digits.

In the Middle East and Africa region, RevPAR decreased 1.7% year-over-year as strong early quarter performance was offset by weakness following travel disruptions from the conflict across the Middle East. For full year 2026, we expect RevPAR to be down in the mid- to high teens as a result of the ongoing conflict in the region, and we expect the biggest impact to be on second quarter performance.

In the Asia Pacific region, first quarter RevPAR was up 9.1% in APAC ex China, led by Australasia RevPAR growth and extended Chinese New Year and other regional events. RevPAR in China increased 1.3% in the quarter, driven by business segment recovery, but offset by continued pressure in group from softer convention and company meetings activity and leisure due to weaker inbound travel. For full year 2026, we expect RevPAR growth in Asia Pacific to be low single digits, with RevPAR flat in China.

Turning to Development. As Chris mentioned, for the quarter, we grew net unit growth 6.3% and now have more than 527,000 rooms in our pipeline. We continue to have more rooms under construction than any other hotel company with approximately 1 in every 5 hotel rooms under construction globally slated to join the Hilton portfolio. We expect to deliver between 6% to 7% net unit growth for the full year.

Moving to guidance for the second quarter, including the impact from the Middle East conflict, we expect System-wide RevPAR growth to be between 2% and 3%. We expect adjusted EBITDA to be between \$1.015 billion and \$1.035 billion and diluted EPS adjusted for special items to be between \$2.18 and \$2.24, both impacted by the significant Middle East RevPAR decline and several onetime and timing items that are unique to the second quarter year-over-year comparison. For the full year, we expect RevPAR growth of 2% to 3%, driven by strengthening underlying fundamentals across chain scales and segments and factoring for a range of scenarios for the Middle East. As a result, we expect adjusted EBITDA of between \$4.02 billion and \$4.06 billion and diluted EPS adjusted for special items of between \$8.79 and \$8.91. 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 first quarter for a total of \$35 million. Our Board also authorized a quarterly dividend of \$0.15 per share for the second quarter. For 2026, we expect to return approximately \$3.5 billion to shareholders in the form of buybacks and dividends. Further details on our first 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 one question. Chuck, can we have our first question, please?

Question and Answer

Operator

Our first question will come from Shaun Kelley with Bank of America.

Shaun Clisby Kelley

BofA Securities, Research Division

Chris, obviously, a big notable change in the U.S. demand dynamics. So hoping you could just unpack that a little bit for us. Our math gets us to probably nearly a 200 basis point increase in your outlook from where you were at the beginning of the year. So could you just walk us through that and maybe elaborate a little bit on your comment around C-shaped economy? Are you actually seeing some evidence of that convergence as we get here into April? Or what gives you that confidence to kind of make that statement? What are you seeing that's getting you excited about the business?

Christopher J. Nassetta

President, CEO & Director

Thanks, Shaun. I think that's a great way to start with the Q&A because it's the biggest question out there. If you go back, I can have team fact check me, but if you go back to like midyear last year, I was very much of the mind that I saw, if you lifted up above a lot of noise that there were some really good fundamental things happening from a macro point of view in the U.S. economy that, to my mind, sort of had to eventually translate into higher growth rates. Now I will admit that certainly in the third quarter, as we reported, while I said that, I also said we're not seeing the green shoots or a whole lot of evidence of that yet.

But then again, Mike (sic) [Shaun], if nothing I've been consistent, in the fourth quarter, I repeated in my view that we were -- that we had to start to see what I sort of made up on my own instead of a K, a C economy where you see convergence of the lower end, the middle class, mid-price segments in our industry moving up. And in the fourth quarter, we started to see a little bit of evidence of that. Now I would say as we're in the first quarter and looking into Q2, where we have part of the quarter behind us, obviously, in the sense of April, we have very good sight lines into May, we're seeing it, right? And we're seeing what to me was inevitably on its way, but it takes time for these things to sort of seep into the economy.

So I said it in my prepared comments and at the risk of taking too much time here, but I do think it's the most important question and answer, what's driving it? Well, I think what's driving it is a number of very big picture things that are going on. One, forget for the moment the spike in energy prices and oil because of the War in Iran and, I mean, broadly, structurally, particularly in housing, you have inflation coming down. And as a result, broadly, again, not in this exact amount, broadly, rates have come down. And I think there -- next you can debate how fast when second half of this year, first half of next year. But I think there's a broad understanding that particularly if we get the Middle East stuff sort of settled down, you're going to be in a lower inflationary environment, and it will allow the Fed to continue to bring rates down to stimulate the real economy, which is what they're trying to do.

Here in, obviously, one of the most deregulatory environments in, what I can remember in modern history. And that means financial services, energy, you name it across the spectrum that you have a broad regulatory deregulatory regime. And that -- in addition to that, in the backdrop, because of the bill that was passed last year, you are in a multiyear position where you have very, very business-friendly tax attributes, right? And that's very hard to get done. It's certainly not going to get undone during this administration. And let's be honest, when you look at it historically it takes a lot even with change of administration to get that kind of sweeping tax policy change. So I think you have a number of years in running room and favorable tax policy.

And then like I'll state the obvious. You have a lot of investing going on in America. Where is that investing? Obviously, AI, all the AI companies, the whole AI complex around it, data centers, energy, it's like one of the -- it's like great race. People are spending money like crazy in and around that. You have infrastructure, which I've talked about for a number of quarters, buying your infrastructure bill, \$1.6 trillion, very little of which percentage wise has been spent. The CHIPS Act to reshore critical manufacturing. Again, \$800 billion, very little of that is spent. Why? Because it takes time to get these things like land, permits, build. So these things, they take a number of years to sort of seep into the system. But I think you're starting to see it.

The best evidence of that, if you go back and there's -- the correlation sort of got obtuse or broken apart during COVID like a lot of things. But for a long spans of time, the highest correlation, 95%-plus over a very long span of time, the correlation and demand growth of the hotel rooms has been growth in RFI, nonresidential fixed investment. Sort of like we've lived in crazyville, post-COVID where you have all the swirling stuff going on, hard to understand. But to me, over the long term, that is exactly what is going to drive the business. And that's exactly what's going to drive the mid-market of the business, all that investing in nonresidential fixed

investment that takes the middle class getting in the game. And if you look at those numbers, they've been moving up and they're perennially bad at forecasting an RFI from my experience. But the actual numbers being reported are moving up. And my guess is the next several years, they're going to keep moving up. And as they do, you're going to see this convergence. With all of those things going on, you're going to see this convergence.

By the way, if that's not enough, I mean I know it's a whole different topic of displacement and everything that goes with AI, but AI is also going to provide one of the greatest productivity booms. I mean, it's going to be equal to or bigger than the Internet productivity boom, and yes, there are people, there's winners, there's loser's, need to retrain and shift and re-skill people, all of that stuff, we won't get into today with the limits of time, but there is no world where economically, it's not advantageous to have productivity gains. Like there is no world, there is no time in American history where big productivity gains weren't matched with big economic growth. So I sort of put all that together, and I feel like, okay, it's happening, like I want it to keep happening. We don't -- I want to be thoughtful about like we're talking about a little bit of fourth quarter and the first quarter and now looking into the second quarter. And I don't want to overcook it, but all of those things I've been thinking, I think, are happening, and I think it's now showing up in our business, and it makes me feel good that we could be in a time frame, honestly, where -- I love it when we're sitting around at this very table every week talking about performance.

And every time we talk, it's getting better, right? And that's what's been happening for a while, for weeks and weeks. It's getting better. Like -- so as we look further out in the year with the visibility we have here in the U.S., it feels better. So reality is we gave guidance to the Middle East. I'll leave that to somebody else to ask, creates some uncertainty, but I think you can make an argument that we are being reasonably conservative with our full year guidance.

Operator

Next question will come from Dan Politzer with JPMorgan.

Daniel Brian Politzer

JPMorgan Chase & Co, Research Division

I suppose I'll take the bait on the Middle East there. Can you just remind us what the exposure in terms of EBITDA or fees across your business is there? And how do you think about the Middle East dynamic and disruption there flowing through to the other regions of your business throughout the course of the year and impacts the U.S. outbound travel?

Christopher J. Nassetta

President, CEO & Director

Sure. Middle East is about 3% of the business. So you'd say, "All right, it was not that big of a part of the business." But like Q2, you see that is impacted by a few things, some onetime stuff that Kevin mentioned from last year, but it's also impacted by the Middle East. I mean the Middle East for Q2, which is when we think it will probably be most dramatically impacted. If it's 3%, it could be down 50% or something like that. You guys could do the math. That could be 1.5 points on System-wide. So whatever guidance we gave you, if the Middle East were doing what it normally does. It wouldn't be -- which had been running in the high single digits, low double digits now for a quarter minus 50% you flipped that around it in Q2, you would be above where you were in Q1.

So even though it is a small percentage of 3%, when you get in very large numbers, small percentage of a large number becomes a decent-sized number. Having said that, we are already -- I mean I don't know where this is all going to play out. I'm looking down outside my window to Washington. We'll see. I don't know. I suspect there will be an off-ramp eventually just given a lot of things, politically and otherwise in the not-too-distant future. Things have already settled down a bit. I mean we are already starting to see, again, in my weekly around this table, when I'm getting reports, certain markets within the Middle East that are some of our bigger markets are starting to sort of stabilize and move up. I mean, they're still quite impacted, but they're getting better. And so what we tried to do in our guidance was, again, on the margin, be a bit conservative and thinking about a range, like in the first quarter, we think it was probably 30 or 40 bps something like that. And in Q2, I just gave you the metric, it's probably 1.5 points. For the full year, it's probably 0.5 point to 1 point impact depending on what you think the trajectory will be.

And at the lower end of that range and thus at the lower end of our overall guidance range, I think what we've assumed is it stays pretty bad and that there is, in fact, some knock-on impact to your question. There's some knock-on impact on other markets. We've seen a little bit of that, a little bit in India, particularly Bangalore, a little bit in the Seychelles and Maldives because of transit through Dubai, but not a lot of knock-on impact, but we've assumed if it stays really bad, there'll be a little bit more. And then obviously, on the upside that you continue to things stabilize and you continue to have recovery but not necessarily a super v-shaped recovery just sort of grinding back up through the rest of the year.

So again, my experience, I'm sad to say I've been doing this long enough. I've had to live through stuff like wars and pandemics and like whatever else it feels like. And so I feel like in this moment, we're trying to be responsible with you all in telling you we're giving you a range of outcomes that we think are rational, if anything, probably on the conservative side as they should be. In terms of -- I mentioned it on the development side, only about 2% of our deliveries for the year are coming out of the Middle East. But those are important deliveries. We do think things will slow down a little bit there. It's so early in the year. We don't know. And so again, that's why we I think -- but for that, we probably would have been telling you we're in the upper half of our 6% to 7% range. But because of the Middle East and potential for supply chain knock-on in other parts of the world, we feel like keeping the range where it was, was more appropriate. Again, I mean, you could say we're being too conservative, whatever, but I mean war is war. There's a lot of possible outcomes. We've tried to frame it around those and be thoughtful about it.

Operator

Your next question will come from Stephen Grambling with Morgan Stanley.

Stephen White Grambling
Morgan Stanley, Research Division

I appreciate all the color on the macro. As we look at some of the actions outside of RevPAR, particularly the launch of the Select brand. Can you elaborate on how this compares to a typical brand agreement? And what are some of the guardrails for what brands you'd be willing to include going forward? And if I can just sneak one more that's related on, does this launch change the way you think about either the marketing or system funds allocations or even M&A?

Christopher J. Nassetta
President, CEO & Director

No, to the last part of that. Let me -- but so I'll answer that. That doesn't change any of that. I mean the way to think about Select is like anything we bring into the system, the first step is quality, does it add to our network effect? Is it is it a swim lane or a brand that we think our customers want, that has the quality that we have promised to give our customers and then we think it will create a benefit, a strengthening to our network effect. That's always the first filter.

So we -- if it doesn't meet the criteria of like we already have something on top of it or we don't like the quality. We're not doing it. And by the way, we've had dozens of opportunities in Select that you don't know about because we haven't done them. This is -- we've done one. I suspect there will be others. I don't know how many they'll be because we're super stringent on what we would do. And so the way to think about it, and YOTEL is a great example is like. It's a great smaller brand. They've struggled to really -- customers love it. The quality is good, and they have a real following, but they've had a real problem without having global scale and all the network effect that we have and the ability to invest in technology and all those things at the level we do to sort of make it work the way they wanted to work. And so -- that was a unique opportunity for us to say, we love it. Our customers, we did a lot of work. We think our customers like it, will resonate well. The quality is good. And importantly, we're entering the agreement with, that is consistent with the way we would approach any franchise agreement. This is a franchise relationship with them.

We are getting -- and if you look at the -- I know there's been a lot of noise out there, but if you -- there's a ramp involved like a lot of our larger multiunit franchise deals. But if you look at a run rate basis, this is very consistent in how we charge for license fees, system fees, all of that, and it is on a fee per room basis, very consistent with the product in that category. And so the difference is it's just a little unique brand. And so like -- could you do it somewhere else? Yes, you could say like what's what's the difference that and like doing it as a tap (Tapestry) or whatever. Well, YOTEL is a good example. It's unique. It doesn't fit in tap (Tapestry) or Curio. It's its own thing. And so we didn't want to try and like we want to have we don't want to have cognitive dissonance with our customers as we bring things into the system, and we like the brand. We wanted it to stand on its own, but we want to do it in the right way. We want to get paid for the effort and we want it to be something our customers really think enhances the broader system. And so there'll be others. I'm sure we're working on a bunch of others, but I said like turndown ratio is very, very high.

Obviously, the appetite for folks that have small brands, I think, is quite high in an environment where we have this much scale and the ability how we work with all the intermediaries, the dollars we can invest in our commercial engines and technology. It's -- I think we have a real competitive advantage. That's why the average market share of our brands is so high and much higher than our competitors. And so increasingly, little micro brands around the world, I think not all of them, but some are figuring that out. And we've been talking to a bunch of them. So I suspect some others will come into the fold over time, but we'll be hyper disciplined about it. Again, quality the brand works, fits in our ecosystem, and we get the fees per room are good. And we get paid for the efforts.

Operator

The next question will come from Lizzie Dove with Goldman Sachs.

Elizabeth Dove

Goldman Sachs Group, Inc., Research Division

I wanted to go back to the AI and kind of technology side of things. Obviously, things are moving very, very quickly. You mentioned you launched the Hilton AI Planner. But I guess just now another quarter into things, how do you think about what the kind of real opportunity set here is, long term, both obviously on the OpEx side of things internally, but then as you think kind of bigger picture externally from the distribution side of things also?

Christopher J. Nassetta

President, CEO & Director

Yes. I mean we talked about this, I think, at fairly good length on the last call and it's obviously an important question. And given the amount of time we're spending on it and everybody is, it would be fair to say it's worth addressing. I would say you're right, a lot of effort going into it by everybody certainly by us. Things are moving very quickly. I would say as every day goes by, we're learning and iterating and thinking and doing different things and working with different partners in different ways. And I think the opportunity gets more not less interesting I know that's what you'd expect me to say, but I believe it to be true. I think the three buckets of how we think about it, haven't really changed.

I think we think about this as a means to create -- to use our scale as a weapon and creating efficiency, which we think can translate into being more efficient at how we go to market and how we deliver for our owner community and more effective. And yes, that could benefit our P&L, too, but really, the largest part of our system cost really relates to the part of the system we manage on behalf of owners. So every time we can be more effective and more efficient in the world, it can translate into benefits for our owner community who need it and want it and deserve it. Our project RISE this year was in part enabled by work that we're doing in this bucket, if you will. And so I'd say we're early days, and I think you have huge opportunities to think about systems and processes across what is a very big global company, to continue to garner efficiencies but most importantly, to be much more effective, be able to move quicker, add hotels, ramp them quicker just because we take great systems but antiquated systems, and we hyper modernize those.

In the second bucket, you heard me mention, we're working with a bunch of the folks out there, Gemini and OpenAI, we're going to be opening our app within their environment in the next couple of weeks, talked about our AI Planner in our environment that we did with Anthropic and Claude. We're working with everybody, and while it's moving fast, there's a long way to go. And so I do increasingly feel really good about what the opportunities for us are. I mean if you think about it at a high level, if you look at the quality using the U.S. market as an example, if you look at the quality hotel market in the United States, we're over 25% of the market. I think that puts us in -- and we are the only ones with that 25% of the market that can control rate, inventory, availability, period, end of story, nobody can get it, unless we give it to them. In a world where you have a more competitive environment, there are a bunch of debates who's going to win, who's going to lose. That's not for us to judge.

I think they're probably going to be more -- there's going to be more than one winner. That's why we're working with everybody. But we realize the asset we have in the system and the control of the system, given our scale is really valuable that effectively, people really do need us if you're going to have -- you can't be missing 25% or 30% of the quality inventory in the U.S. and have something that's a real full offering. And so I like where we sit. It's complicated. It's fast moving, there's risks, but we're approaching it very much in the form of a partnership with all of the counterparties that are developing these technologies. We want to show up with all of them. And in the end, I do believe as a result of the great work they're doing and a result of discipline on our side, that there's real opportunities to create more efficient, more effective distribution. They sort of just has to be if we're smart about it, and we intend to be.

And then the last bucket AI Planner is, in fact, part of it. And if you think about when we have a stay experience people are with us, your customers, we have all sorts of opportunities to like equip our team members now with all the information we have with technology in the palm of their hands to deal with problems, to customize the experience. And we're testing and learning in the stay experience with really cool things that really revolutionize the stay. But we also, a lot of the engagement we have with our customers is digital. Think about when they're dreaming, booking, planning, post-stay. And so -- and they're not with us. And so that's about trying to make sure that the approach we have digitally with folks is utilizing all the best thinking and technology to create a very engaging experience so that, yes, when they're with us, they have the best day experience in the business, and that's why they want to come back -- but when they're not with us and these other steps of the customer journey, they feel equally good about our ability to give -- to satisfy their needs and to customize at mass scale.

And so again, all this stuff, I mean, we're doing things. We talked about it, you can go play with the AI, the Hilton AI Planner or Stay Planner, it's early days, but we're doing super important foundational work. And the last thing I'd say is our tech stack and it's not by happenstance is very advanced. So many years ago, COVID, like turned it to a time warp, but pre-COVID, so probably 8 or 9 years ago, we made the decision to really completely blow up all our legacy architecture and make sure that our core systems and otherwise were cloud-based open source, micro services driven, which means totally modern tech stack that has like incredible agility and agility and the ability to have control. So it's a system built on certain elements of table stake sort of technology, it might build off an existing platform. But where we customize and modify it, it's things we own and control. And so it gives us, we think, a really unique ability to be agile and do things for customers that are going to be unique that others that are going to be with monolithic providers can't do.

And so that was a very purposeful decision to my tech team. They're extraordinary and leading that effort over a bunch of years. And I would say it just puts us in a really good position in the world we live in, where AI is coming and you have all this opportunity. But if you don't have the flexibility and agility of a tech stack, it doesn't really matter because sort of like the machine stops. So that I'll leave it at that. We could talk AI all day, and we do around here, talk about it a heck of a lot, but that's probably enough for today.

Operator

Your next question will come from Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Just wanted to follow up on the expectation for conversion to be up in 2026 across every region. Do you think this is a new normal for conversions moving forward? Or will we revert back to a more normalized conversion level versus new construction mix? And is there anything to think about from a fee perspective, longer term, if conversions continue to be a greater portion of the fee mix moving forward?

Christopher J. Nassetta

President, CEO & Director

I don't think there's any material impact on the fee side of it. So answering that first. I -- this year, we're going to tick up, as I said, last year, we were like 36%. Current forecasts are we're trending a bit above that, probably 38% to 40% in the latest numbers. I mean there's a lot of moving parts under the year, for the year. But we think we think it's going to be up modestly. I actually -- I think the math of it is such that on an absolute basis, I don't think you're going to see a big drop off, in conversions. As a percentage of [nug], I do think you will see it moderate over time, but that's because you've been in a world where construction starts haven't really gotten back to pre-COVID levels. And that will happen and is happening. It probably happens this year. And as you start to have that happen over the next 2 or 3 years, and new construction grows in an absolute sense, I think the percentage will decline.

I don't think it will ever go back down. I mean, we peaked during the -- great recession in the low 40s. We're sort of back there now. It went as low as the high teens. I don't think we're going to be in a world where it's high teens. I mean when it was high teens, let's be honest, we had 1 brand, 1.5 brands sort of like Hilton and DoubleTree when it went. Now we've got a dozen brands that are really a dozen or more brands that are really good candidates for conversion. So I think you're probably sort of permanently in the 30% to 40% range. I'm making that up. But I mean, directionally, if you did the math on new starts, I think you're sort of permanently in that range.

Operator

The next question will come from David Katz with Jefferies.

David Brian Katz

Jefferies LLC, Research Division

Thanks for taking my question. I know you said you'd like to sort of leave the AI discussion right where it is. But I wanted to ask something just a little more industry level, if that's okay, which is -- it's obvious that you're making great progress in working at terrific speed. Outside the industry, not talking about competitors or peers, right, there is sort of an independent track that's going on, and there's also an OTA environment that's also, I assume, moving as fast as they can. How do you envision those dynamics sort of playing out? And do we evolve into kind of a different industry landscape in that regard? Or are you just running your race and luckily not paying a ton of attention to what they're doing?

Christopher J. Nassetta

President, CEO & Director

No, no. We, of course, are paying a lot of attention to what everybody is doing. I do think on the margin, it will look a lot like it does over the next 5 years from now, it will look like -- a lot like it does today or it has looked. I think on the margin, though, if we do our job, I think AI allows us, as I said, that be more efficient and more effective. What we did that is, code for continuing to build more direct lines to our customers. I mean that's where we have a terrific relationship with the OTAs, and we do a certain segment of our business with them. And I suspect we will for a very, very long time.

But I think our ability -- our control of our inventory, our ability to customize the experience in unique ways, it being a more competitive environment where there isn't just one winner in search probably when it's all said and done. I think that puts us in a position where we -- it gives us an advantage relative to what we've had to continuing to build more direct business. Now 80% plus of our business is already direct. So we've had a fair amount of success in doing that. But I think on the margin, it helps in that regard. But I go back to where I started. I don't see that the whole system changes in a material way anytime soon.

Operator

Your next question will come from Robin Farley with UBS.

Robin Margaret Farley
UBS Investment Bank, Research Division

My question is not about AI. Just looking at results, fantastic results, and I think that full year RevPAR rates higher than the market was expecting. I am curious, last quarter, you had a slide that showed that 100 basis point raise in RevPAR would be 100 basis point raise in EBITDA. And it looks like it's maybe sort of more like a 50 basis points raise in EBITDA. Your G&A didn't change. Just anything else you would call out in that sort of flow through to EBITDA from the raise?

Kevin J. Jacobs
Executive VP & Chief Financial Officer

No, Robin, I think -- look, I think the rule of thumb we would use and maybe the 100 basis points was a little bit of rounding and I think we've actually updated that more recently. The rule of thumb we do is about \$25 million or \$30 million of EBITDA per point. And so we raised our guidance -- our RevPAR guidance by 1 full point. So if you think about that as being typically \$25 million to \$30 million, the things that are going on there is you just have the impact of the Middle East with a little bit of IMF and a little bit of FX, which caused us to raise the midpoint by [20] instead of, call it, [25] at the low end of the range. So that's the way to think about it, and it's not more complicated than that.

Operator

The next question from Brandt Montour with Barclays.

Brandt Antoine Montour
Barclays Bank PLC, Research Division

So back to demand, you sounded really good on group business. That was that was sort of the downside surprise for the industry last year, obviously, with tariffs. And just sort of curious, when you think -- when you look out and expect group to still lead, are you actually seeing in the year, for the year group bookings materialize better than planned? Or is it really just sort of easy comps that give you that confidence?

Christopher J. Nassetta
President, CEO & Director

No. I mean we're seeing real lead volumes and bookings in line with the forecasting we have. And atmospherically in the discussions that our sales folks are having broadly about sentiment in that space and the corporate space, for that matter, are much better, quite good. So they get -- I think, listen, people are feeling better when they're spending more -- they need to move more, they need to aggregate people more, and we're seeing it show up. The booking position supports it, the leads more than support it.

Operator

Next question will come from Trey Bowers with Wells Fargo.

Raymond S. Bowers
Wells Fargo Securities, LLC, Research Division

Just getting back to [NUG], to the extent that the disruption in the Middle East might cause some impact on 6% to 7% growth this year. Is that just some of the either conversions or new builds kind of fall out of the system or the expectation of you were not at the high end of that range for this year. Would most of that fall into 2027?

Christopher J. Nassetta
President, CEO & Director

It's just timing. We don't -- we're not concerned that anything is falling out of the pipeline, or conversion opportunities are drying up. It's just like there's a lot going on over there and some people have slowed construction, they've slowed decision-making on conversion deals that we're working on. So I don't think we feel like any of it really ultimately falls away. I think it's a question of when it gets done. And it's early to say. By the way my team says -- our team says it's picking up by the day, like Saudi Arabia, sort of isn't missing a beat, UAE, a little bit more disrupted, Kuwait, Qatar, much more so because the issues there have been more dramatic. So really, -- it's not like one monolithic area. It's country by country. And so we're watching it carefully. But I think it's -- I don't think these are things that like disappear. I think it's just a function of -- it may push a quarter or 2.

Operator

The next question will come from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Just to stick on that theme. As you think about your share of rooms versus much larger share of rooms under construction. What markets do you feel like that disconnect opportunity is biggest? Basically, what geographies offer the best share gain opportunity as you look out maybe over the next 5 years?

Christopher J. Nassetta
President, CEO & Director

Well, there are a lot of them, I would say -- I mean, where we have what we call inside the company's springboard work, which is where we see sort of the disconnect in terms of demand for our products and what is a relatively low existing base of hotels. So I would say India being first and foremost, I mean we think easily, it's a 10x or 20x sort of opportunity. We have whatever, 40 hotels in India. I mean with the deals like when we announced today, we sort of have 400 in and around the pipeline or under development. So India is definitely one.

Southeast Asia is another where we have a big presence, but we think the opportunity is to be 3x or 4x the size that we have. [CALA], the broader [CALA] environment. We've got a big presence of 300 hotels, but we think we could be easily 2x or 3x that size. KSA, we have 25, 30 hotels. We think we can easily be 4x to 5x that, probably even more as well as other parts of the Middle East. Obviously, the Middle East, we just talked about, there's some challenges, but in part because I'm always an optimist, but I do think one way or another, this will settle down, and there's a lot of momentum underlying travel and tourism in the Middle East that I think will pick up pretty quickly when you get to the other side of this conflict.

So I mean -- and I shouldn't forget Africa, where a huge population, what is -- we've been there for many, many decades, but have a relatively small base and a huge opportunity. And so yes, the reality is we've got 27 brands. And if you look at the average number of brands that's deployed in any market, I think it's like 4 brands with 27. So even where we have more density, there's a tremendous amount of network yet to build and thus growth and then the markets I just covered, I would argue and almost all of them other than maybe [CALA] where we have 300 hotels. The others were in sort of our nascent stages. The brand is well known. We performed really well. We've had a presence in a long time. But relative to the populations and the demand base, we're just getting started. So that's why we get really excited when we think about -- I get the question, well, how long can you grow 6% or 7%?

And my view is a long, long time, simply because the world is a big place, populations all over the world need to be served. They're all -- in most of the markets I just described, there way underserved relative to any of the other more mature markets. And yet our brands do well there. Customers recognize us, and it's an opportunity to really build a powerful network effect, in many of those places.

Operator

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

Christopher J. Nassetta

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President, CEO & Director

Thanks, everybody. As always, we appreciate the time. As you can tell, there's a lot going on in the world. There's no question about, the Middle East is not helpful. But 75% of our business is still driven out of the U.S., and we have seen really nice uptick in performance driven by a really nice uptick in demand across all segments. We think that is sustainable as we look out for the rest of the year and beyond. And so notwithstanding everything going on in the world, we feel really good about our ability to drive top line, drive unit growth, obviously, the free cash flow that we need to drive and keep returning capital as a serial compounder. So we feel great about the business. Look forward to catching up with you after the second quarter to give you the update on everything going on.

Operator

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