



**Marriott International, Inc.
Third Quarter 2017
Earnings Conference Call Transcript¹
November 8, 2017**

Operator: Welcome to the Marriott International third quarter 2017 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to the president and chief executive officer, Mr. Arne Sorenson. Please go ahead.

Arne Sorenson: Welcome to our third quarter 2017 earnings conference call. Joining me today are Leeny Oberg, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

Let me remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release that we issued yesterday, along with our comments, are effective only today and will not be updated as actual events unfold.

In our discussion today, we will talk about results excluding merger-related costs and we'll compare 2017 results to prior year combined results, which assume Marriott's acquisition of Starwood and Starwood's sale of its timeshare business were completed on January 1, 2015. Of course, comparisons to our prior year reported results are in the press release, which you can find, along with a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor. So, let's get started.

This has been an eventful quarter... from Hurricane Harvey and its historic flooding in Texas, to Hurricanes Irma and Maria and their relentless pounding of the Caribbean, Florida and parts of the Southeast – to two earthquakes in Mexico - and then the devastating fires in Northern California... all within a quick seven-week period. We have a presence in these communities and our crisis management and property teams have worked tirelessly to ensure guest, associate and property safety. Not only have these events damaged property and upended lives, they have also impacted local economies, many of which are very dependent on tourism. As these areas repair, rebuild, and recover, we encourage you to support their efforts. One Sonoma restaurant owner recently said to a New York Times reporter, "There are so many people who want to do something. The most important thing we can do is to tell people we're open, we're here. And we want them to come."

So, let's talk about our quarter and the trends we are seeing in the business.

¹ Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.

Worldwide Systemwide RevPAR rose 2.1 percent, just above the high end of our worldwide RevPAR guidance.

In North America, systemwide comparable hotel RevPAR increased 0.4 percent in the third quarter, a bit better than our “roughly flat” guidance in part due to the favorable RevPAR impact from the hurricanes. In the third quarter, leisure demand was strong and association group business was better than expected. While corporate group and transient demand remains cautious, we’ve seen few cancellations; little attrition; and our funnel of new, but unsigned, group bookings is improving. Combined, the shifting Jewish holidays, the tough comparisons to last year’s political conventions, and the day of the week shift in the July 4th holiday reduced our third quarter North American systemwide RevPAR growth by about 100 basis points, while the disruption associated with Hurricanes Harvey and Irma increased North American RevPAR by about 25 basis points. Five hotels remain closed in Florida and another five are closed in Texas.

In the third quarter, the Caribbean and Latin America region experienced two major earthquakes, three tropical storms, and four hurricanes. The Virgin Islands and Puerto Rico were particularly hard hit. As a result of these events, we no longer include 18 properties in the region in our comp set for purposes of calculating RevPAR performance; we exclude eight hotels because they have sustained severe damage and are taking few guests, and we are removing ten properties because they are closed. For the revised comp set, systemwide comparable RevPAR increased 2 percent in the quarter largely due to solid RevPAR growth in Central America and better demand in Argentina.

Third quarter RevPAR was flat in the Middle East and Africa reflecting higher RevPAR in Egypt, moderate growth in South Africa, and an 8 percent RevPAR decline in the Middle East. Sanctions on Qatar have reduced travel into and out of that country, while weak oil prices and lower government spending have constrained RevPAR growth in other Middle East markets.

In the Asia Pacific region, constant dollar systemwide RevPAR rose 8 percent, exceeding our expectations largely due to strong leisure demand. Comparable hotel RevPAR in Greater China increased nearly 11 percent driven by strong GDP growth, while RevPAR in India rose 7 percent. The strength in the China economy is being felt outside that country as well, where roomnights sold to Mainland China travelers increased nearly 20 percent in the third quarter.

In Europe, third quarter RevPAR rose nearly 9 percent with strong leisure demand in Spain and Italy, and great fair business in Germany. Roomnights sold to U.S. travelers visiting our hotels in Europe increased 11 percent in the quarter. Istanbul continues to recover with strong Middle East demand on easy comps.

For the fourth quarter, we expect RevPAR will increase 2 to 3 percent in North America as we benefit from the holiday shift and continued hurricane-related demand in Texas and Florida. North America Group pace is up 5 percent for the quarter. For international markets, we expect RevPAR will grow 3 to 5 percent, and worldwide, we expect RevPAR will increase 2 to 3 percent in the fourth quarter.

With the benefit of the third quarter's actual RevPAR and expected fourth quarter performance, we now expect full year 2017 worldwide systemwide RevPAR to grow 2 to 3 percent, up from 1 to 3 percent a quarter ago.

We are only partway through our budget process for the upcoming year, but the early indications are that 2018 RevPAR growth will be similar to growth expected for full year 2017. In North America, we expect special corporate rates, currently in negotiation, will increase at a low single-digit rate and, in the absence of accelerated economic growth, special corporate volume for comparable customers is likely to be flat. Government per diems for 2018 vary considerably by market, but overall in the U.S. should rise 3 to 4 percent. Today's 2018 group revenue booking pace for our full-service hotels in North America is up nearly 2 percent and we believe that is a fair estimate of how group will perform. Assuming continued cautious corporate demand, we expect 2018 North American RevPAR will be flat to up 2 percent, largely driven by room rates, and slightly stronger in full-service than in select-service.

For those of you who are modeling quarter to quarter RevPAR performance, recall that 2018 first quarter lodging demand will have tough comparisons from the 2017 Inauguration and Women's March in Washington, D.C. and an earlier Easter and Passover in 2018.

For our international markets, we expect RevPAR will increase 3 to 5 percent in 2018 with strong mid-single-digit growth expected in the Asia Pacific region, low-single-digit growth in Europe, Caribbean and Latin America regions, and slightly positive RevPAR growth in the Middle East Africa region. This should yield worldwide systemwide RevPAR growth of 1 to 3 percent.

Turning to development... in the third quarter, our worldwide development pipeline reached a record 450,000 rooms, which is 36 percent of our current system size, and worldwide room openings totaled 23,000 rooms, a new single quarter record.

Our brands continue to be preferred by developers and lenders alike. Based on STR industry pipeline data, our brands continue to represent a leading 35 percent of hotels under construction in the U.S. and 1 in 4 hotels under construction worldwide.

With eight leading brands, our worldwide pipeline of luxury rooms totaled nearly 50,000 at quarter-end, or more than 40 percent of our current distribution. In the third quarter alone, we signed or approved seven new luxury projects including a new Luxury Collection hotel in Japan, a Ritz-Carlton resort in Saint Lucia, and an EDITION hotel in Arizona.

Our worldwide pipeline of upper upscale rooms totals 132,000, with about half located in the Asia Pacific region. The Marriott Hotels and Sheraton brands are particularly strong in Asia, while the Autograph and Delta brands are building a meaningful conversion pipeline in North America.

Worldwide, our limited-service pipeline totals 270,000 rooms, with growing interest from owners and franchisees around the world. Five years ago, only one quarter of our pipeline outside North

America consisted of limited-service rooms; today such rooms represent over 40 percent of our international pipeline.

In the last 12 months, Marriott's gross room additions totaled 6.6 percent and deletions were 1.1 percent. New hotel signings remain strong and our pipeline has grown 7 percent in that same period. We are not seeing project cancellations or any hesitancy to sign new deals. But shortages of skilled tradesmen, contractors and subcontractors are delaying openings. This is particularly true of high-value, complex projects, such as dual-branded hotels, urban properties, high rises, and large custom projects. Today, these non-prototype projects make up over half of our limited-service openings in the U.S. Looking ahead, we believe the high demand for construction talent in hurricane, fire, and earthquake damaged areas, continued political disruptions in the Middle East, and a growing proportion of complex limited-service projects in the U.S. could further lengthen average construction periods by a few months. Despite these issues, we believe our leading 1.2 million room worldwide system will grow by nearly 7 percent, gross, in 2017 and roughly 7 percent, gross, in 2018.

As you may recall, we have typically deleted about 1 percent of rooms each year; today, we are estimating deletions across our entire portfolio will total 1 to 1.5 percent in both 2017 and 2018. This unusual level of deletions is largely related to the Sheraton brand. We expect 6,000 Sheraton rooms will exit the system in 2017, with another 4,000 rooms departing in 2018.

We have launched a full-court-press to improve the Sheraton brand. We are working to increase accountability, quality assurance, and capital investment, while applying Marriott systems and programs to drive the top line and reduce costs. These are still early days, but we believe we are making real progress. And owners are noticing. In fact, we signed 3,500 new Sheraton rooms in the last 12 months alone with representation from all of the continents.

We've never been more optimistic about our business, our underlying competitive strengths and our long-term growth potential. The Starwood integration is on track. We have identified more synergies and more business opportunities than we anticipated. We continue to believe we will achieve \$250 million of G&A savings and expect to do that in 2018. And we continue to improve our products, services and systems to enhance the value of every roomnight.

To tell you more about the quarter, I'd like to turn the call over to Leeny Oberg. Leeny?

Leeny Oberg: Thank you, Arne. For the third quarter of 2017, adjusted diluted earnings per share totaled \$1.10, roughly 12 cents ahead of the mid-point of our RevPAR guidance of \$0.96 to \$0.99. On the fee line, we picked up about 2 cents of outperformance, with about half due to better than expected hotel results and half due to better relicensing and branding fees.

Our owned, leased and other line outperformed by 3 cents, with about half from purchase accounting revisions for the Starwood acquisition, with the remainder from strong hotel performance and higher than expected termination fees.

G&A was 3 cents better than expected, sourced roughly equally from a tax credit, favorable purchase accounting revisions, and timing. Our gain line was about a penny better than expected due to a transfer tax settlement. And finally, taxes were about 3 cents better than guidance due to greater tax benefits related to stock compensation.

Compared to the prior year, total fee revenue was \$831 million, 8 percent over the prior year and 2 percent ahead of the midpoint of our guidance.

Base fees increased 1 percent over the prior year, driven by unit growth and RevPAR improvement, and offset somewhat by negative foreign exchange impact and the impact of terminations and contract changes.

Franchise fees increased 13 percent in the quarter, reflecting unit growth, higher RevPAR, and growth in non-property fees. These non-property fees include application fees, relicensing fees, and fees from our timeshare, credit card, and residential businesses, which together totaled over \$105 million in the quarter, 24 percent higher than the prior year. We expect these fees will grow roughly 20 percent for the full year 2017 from \$350 million to over \$420 million.

Incentive fees increased 7 percent year-over-year in the third quarter, largely due to strong managed full-service hotel RevPAR in Europe and Asia and good margin performance at company-operated hotels around the world. Global house profit margins at company-operated hotels improved 40 basis points during the quarter. Hotels continue to benefit from synergies associated with the Starwood acquisition, including OTA and procurement savings, revenue management improvements, benchmarking initiatives, savings on maintenance agreements, and insurance savings. Our hotels are also benefiting from a 10-basis points reduction in our centralized charge out rate for our loyalty programs and we expect to reduce such charges by another 10 basis points in 2018. We expect additional property cost savings as integration proceeds.

Adjusted owned, leased, and other revenue, net of expenses, totaled \$94 million in the third quarter compared to \$116 million in the prior year. Since the beginning of the 2016 third quarter, we've sold five hotels, in each case retaining long-term management agreements. These properties contributed \$15 million in profits in the 2016 third quarter, making a tough comparison for third quarter 2017. Growth in the 2017 quarter was also depressed by the tough comparisons to the 2016 Olympics in Brazil, weak results in New York and renovations at two leased hotels in Europe.

Owned, leased, and other revenue, net of expenses was \$19 million better than expected due to \$9 million of favorable purchase price adjustments, as well as higher than expected termination fees, and better than expected results at hotels in Canada.

Adjusted depreciation and amortization totaled \$70 million in the quarter compared to \$81 million in the 2016 third quarter. The decline was largely due to the impact of hotels that we sold or moved to assets held for sale.

Adjusted general and administrative expenses totaled \$201 million in the third quarter, a \$36 million decline from the prior year, largely reflecting continued cost reductions as the integration continues. Compared to our expectations, G&A was \$17 million better than the midpoint of our guidance due to a \$6 million state tax credit, a favorable \$4 million of purchase accounting revisions, and timing.

In total, purchase accounting revisions in the adjusted third quarter income statement totaled a net favorable \$16 million, pretax. These represent the income statement impact of the final adjustments to the fair value of assets and liabilities which we acquired in the Starwood deal. Congratulations and a big thank you to the finance team, who has worked tirelessly on this since completing the acquisition a year ago.

Third quarter adjusted EBITDA increased 7 percent over combined adjusted EBITDA in the prior year. The 2016 quarter included \$15 million from owned assets that we have since sold.

For the fourth quarter, we expect fee revenue will total \$825 to \$835 million on higher RevPAR, unit growth and margin improvement. The 20 hotels that are closed due to the storms earned \$2 million in fees in the fourth quarter in 2016 and \$12 million in fees for full year 2016.

We expect owned, leased and other, net of direct expense, will total roughly \$90 million in the fourth quarter compared to \$109 million in the year-ago quarter. Profits in the 2016 fourth quarter included \$21 million from four hotels that have since been sold.

Last month, we announced an agreement to sell Avendra, a leading North American hospitality procurement services provider. Avendra has been a terrific success and we believe the combination with Aramark should further increase scale and drive even better results to our hotels. We expect to receive roughly \$650 million at closing for our 55 percent share of Avendra and such proceeds will be invested for the benefit of our system of hotels. We are currently developing these investment plans and will disclose amounts as they are spent. When the Avendra transaction closes, we will likely record a meaningful gain on the sale, but we expect to back out the gain from our adjusted EBITDA as a special item.

Assuming no gain in the fourth quarter, we expect fourth quarter diluted EPS will total \$0.98 to \$1.00 and adjusted EBITDA will increase 1 to 3 percent to reach \$762 to \$777 million. This is a bit lower than the implied guidance at the end of the second quarter, largely due to delays in G&A spend, the impact of the sale of the Toronto Sheraton, and lower depreciation associated with reimbursed costs. The fourth quarter of 2016 included \$21 million in EBITDA related to assets that have since been sold as well as an \$8 million favorable litigation settlement.

For the full year 2017, we expect adjusted diluted EPS will total \$4.22 to \$4.24, an increase of 28 percent over prior year combined results and we expect adjusted EBITDA will total \$3.18 to \$3.19 billion, an increase of 6 to 7 percent over 2016. Since the beginning of 2016, we've sold nine hotels, in each case retaining a long-term management agreement. These properties contributed roughly

\$90 million in owned/leased profits in fiscal 2016 compared to \$45 million expected for the full year 2017.

Our 2017 outlook does not include any impact from the ongoing renegotiation of our credit card agreements with JP Morgan Chase and American Express. We expect to finalize our credit card negotiations by year-end, or shortly thereafter, and won't likely be able to estimate the P&L impact to Marriott until early 2018.

We remain disciplined in our approach to capital investment and share repurchase. 2017 investment spending could total \$550 to \$650 million, including about \$175 million in maintenance spending. We have already recycled more than \$1.1 billion of assets since closing the Starwood acquisition, including the sale of the Sheraton Toronto for roughly \$270 million and the receipt of a \$65 million loan repayment early in the fourth quarter. We remain comfortable with our estimate of \$1.5 billion of asset recycling proceeds since the closing of the Starwood transaction to year-end 2018, but expect few additional proceeds will be recognized in the fourth quarter of 2017.

With our success in asset recycling, we've already returned over \$2.7 billion to shareholders through dividends and share repurchases through last week and expect we will approach a record \$3.5 billion returned to shareholders for the full year. Compared to our expectations we discussed last quarter, our cash return to shareholders has increased due to roughly \$350 million of incremental asset recycling, higher EBITDA levered appropriately, lower and a bit later capital spending, and higher working capital including the impact from growth in our loyalty programs. The higher cash return is not related to the expected cash from the sale of Avendra. At September 30, 2017, our common shares outstanding totaled 366.4 million shares, 6.2 percent lower than the prior year amount.

Our balance sheet is in great shape. Excluding merger-related costs, our debt ratio on September 30 was at the low end of our targeted credit standard of 3 to 3.25x² adjusted debt to combined adjusted EBITDAR.

As we typically do in our third quarter release, we have provided our preliminary view of 2018 RevPAR and unit growth today. Our hotels' budgets are not yet complete, and we are still quantifying the impact of FASB's new revenue recognition rules, which will be effective at the beginning of 2018. You'll find a general overview of the new rules described in our third quarter 10-Q that we plan to file later today or tomorrow. Bottom line, this is an accounting change... it doesn't impact cash or the economics of our business.

We expect to release fourth quarter and full year results mid-February and will work to provide 2017 results by quarter under the new revenue recognition rules as soon as possible thereafter.

As you know, it is our practice to provide fulsome guidance for each upcoming quarter and current year. Given our continued finance integration effort, and the work to present 2017 results under

² Corrected for misstatement.

the new rules, we expect our first quarter 2018 earnings guidance is likely to be a bit less detailed than usual. We appreciate your patience.

So that we can speak to as many of you as possible on today's call, we ask that you limit yourself to one question and one follow up. We'll take your questions now.

Question and Answer Session:

Harry Curtis - Nomura Securities Co.: My question is, how can Marriott respond to the increase in pricing transparency apps like Yatra and Tingo, particularly with respect to close-in bookings? To what degree is it impacting your ability to price higher than, say, the low single-digits in an environment where GDP is actually beginning to accelerate?

Arne Sorenson: Yes, it's a good question, Harry. I think the -- we obviously are taking a very careful look at the continued evolution of a number of these apps, and obviously, we live in a world with radical transparency in pricing where prices are available for essentially every hotel at an instant notice.

We are doing everything we can. I mean, obviously, the core platform for us is the loyalty program, and we continue to see that the room nights coming from our loyalty program are continuing to increase, approaching 55 percent, I think, across the world today. And that's a powerful thing. Obviously, some of these other booking platforms are not conducive to loyalty members because they will not earn points associated with them.

I think beyond that, steps around the redemption formulas for the loyalty programs, which we want to continue to adjust. We've already made some changes so that hotel owners have less incentive to drop rates at the last minute in order to meet the high occupancy redemption formulas that exist or historically have existed both in our platform and in many of our competitors' platforms. I think, similarly, that the extended cancellation window to 48 hours, which we put in place a few months ago is another theme which deals with overbooking risk but also, to some extent, addresses these last-minute booking trends. But stay tuned on this. This is something that we'll continue to evolve, I think, in the quarters and probably years ahead.

Robin Farley - UBS Investment Bank: I know it's only one question so I just really wanted to ask a little more about that group pace 2 percent, whether that was a volume and price combined. But I - - but if I only get one question, I will go with the -- I saw the increase in your capital return, and I know in the opening comments, you mentioned some of it had to do with the extra \$350 million in recycled proceeds. But just given that your outlook for 2018 is sort of very consistent with your outlook for 2017, so given there's not a big change in the outlook, it was a big step-up in capital. Was there anything else behind that? Was it a decision kind of not to do something else? Or just want to get more color on that.

Arne Sorenson: Robin, just because we like you so much, we'll answer the second question that you very artfully asked, which is 100 percent of the group revenue increase next year is ADR-driven, not occupancy-driven. But Leeny will talk about the capital return.

Leeny Oberg: So -- thanks, Robin. So a couple of things. This is definitely solely a function of that growth -- repurchase this year of the results kind of turning out the way they are. This is not a function of something that we're looking out and seeing in 2018. I will say to your point, in 2018, to remember that part of this really record high level of share repurchase this year is due because we weren't able to bring back roughly \$500 million of cash as part of the Starwood acquisition that was sitting in a number of different structures that when we put the 2 companies together, we were able to bring home. We also have the reality that asset recycling is likely to be lower next year than it is this year. But I think otherwise, you should -- with the exception of those 2 things, you should look to see us continue to have very strong levels of share repurchase.

And I should remember that Avendra, from the standpoint of Avendra, that the numbers that we're talking about here don't include the proceeds from Avendra. And that when you think about the use of that cash, we will be giving you more detail about the timing of the proceeds. We're going to have to pay cash taxes on those proceeds, which will be meaningful. So I wouldn't expect that they will have a dramatic impact on our share repurchase next year. And to the extent that we are able to use some of that cash, we will be able to fold it into the numbers that we give you guidance on.

Shaun Kelley - BofA Merrill Lynch: Leeny, I think you gave a really good rundown on where you're at with the asset sale program. And I think if I caught the numbers right, you said you had \$1.1 billion has been completed. That may have included some other recycling though. So could you just give us an update? It was a \$1.5 billion target. How much is remaining for 2018? And then based on what you're seeing out there in the sale markets, is there reason or room to believe that you might have some things that you could kind of -- there could be some room for upside to that number?

Leeny Oberg: Sure, thanks very much. So you're right, absolutely right. We're looking -- let's just talk for this -- since the deal closed, yes, \$1.1 billion. We had San Francisco, St. Regis was in the fourth quarter of last year. So this year, you're looking at total asset sale dispositions of, call it, \$750 million, and the rest coming from note collections for a total year-to-date of roughly \$900 million, okay? So when you think about that relative to the assets that are left, then to get to our \$1.5 billion that would argue roughly \$400 million would be in 2018. And as you remember, I've kind of talked about the 3 buckets of assets. And we feel very comfortable that assuming the ones that are either easily sold and then also can be worked out that, that would get us to our \$400 million in 2018. I think we still believe that, that will leave us a handful that because of the dynamics in their particular markets, be it Rio or Aberdeen, Scotland, that we may need to wait a little while. But the \$400 million related to 2018, we feel good about.

Felicia Hendrix - Barclays PLC: Okay. So Arne, a question for you. So your U.S. RevPAR growth forecast was a little better than we were expecting, and you highlighted some of the drivers behind that in your prepared remarks. But as we're thinking about the various segments of the U.S., both in terms of chain scales and then also geographically, where are you seeing better growth than you

thought you would see last quarter when you seemed more cautious and even a bit frustrated with some of the North American RevPAR trends?

Arne Sorenson: Yes, I mean, I think the -- obviously, the third quarter itself is a bit confused because of the political conventions and the Jewish holidays, particularly. We talked about the impact on the full year -- full quarter RevPAR of about 100 basis points. You can see in the reported numbers between full-service and limited-service that limited-service performed a bit more than a point better than the full-service hotels, 1.5 points better really systemwide in the United States. And the reason for that really is about those 2 noncomparables in terms of the calendar. It's full-service hotels that bear the brunt of both the loss of the political conventions in Q3 2017 and are more likely to be impacted by Jewish holidays landing in the quarter. The -- also because of those holidays, you end up in the quarter with relatively stronger leisure business.

I think when you look at the full year, not just the quarter, we would say leisure is the strongest; secondly, would be association group business and then, probably third, would be all things corporate. And corporate remains -- we used the word cautious in the prepared remarks, I think that's a very deliberate word to use. It's not weak in absolute terms. The hotels are performing well and the corporate accounts are performing well. But I think there is a bit more focus on costs across the average corporate customer today than might have been the case in past economic recovery cycles.

I think the last thing to point out, it's a little bit counterintuitive, maybe initially, is the impact of the hurricanes in Texas and Florida, not counting the Caribbean, were a net positive in September, not a net negative. Probably most dramatically so in Texas, where that was one of the weakest markets we have in the United States for the last year or 2. And fairly quickly, within days, recovery efforts are beginning and people who are looking for housing are filling up hotels. And so, the Houston market and Florida market drove a bit of the outperformance in Q3.

Felicia Hendrix - Barclays PLC: And Leeny, if we could just move on to a question about the credit card deals that you're working on, and I know you said you'll have something to announce maybe by the end of this year or early next year and you're not really prepared to talk more about that, but I'm going to ask anyway. I think that there is a narrative in the investment community about the incremental cash flow that you can get from those deals. And I just -- we're kind of calculating something a bit lower than what I think others are saying. And if you look at the transaction that Hilton -- that transpired with Hilton and if you think about the multiples of size that your loyalty program is, I think folks are coming up with incremental cash flow to you of \$300 million, \$500 million. We're calculating something a bit lower than that. So, I was just hoping you could maybe clarify how you're thinking about that.

Leeny Oberg: So, let's go back just as a little basics on what we talked about last March. Just as a reminder, that we talked about the kind of non-hotel revenue-related fees totaling \$350 million, of which the credit cards were roughly half, so call it roughly \$173 million in the 2016 numbers. And we've talked about that -- we talked today about how that \$350 million will grow to over \$420

million, close to a 20 percent increase, and that will be heavily driven by the strength of our credit card business, which is -- continues to grow really well.

But as it relates to the new credit card deals, I could really only say the following, and that is that we are working with our partners. We -- as soon as we have a definitive deal or deals, we will talk about it. And that -- we have said that these agreements have been sometime since they've been renegotiated. So, 2 things: number one, we would expect from the passage of time that the deal has got better economics; and then number two, frankly as a result of our combined platform, we believe there's additional benefit there. So that we do believe there will be great economic value frankly for Marriott International shareholders, for our owners through a more economic loyalty program from the contributions from the credit card companies, as well as, frankly, for the customers who are going to be using these credit cards. So, there's tremendous value. But to get into the specifics of where those dollars fall, it's just too soon.

Felicia Hendrix - Barclays PLC: So just -- is the -- because we're all in the business of trying to anticipate these things, is the math wrong to kind of take what the incremental benefit that Hilton got and to kind of assume that perhaps your loyalty program is 4 or 5x greater and just kind of do the math on that?

Leeny Oberg: The first thing should be not surprising and that is I really can't comment on Hilton's program, how exactly the structure of their deal and how they -- how the credit card companies, what they're so-called "paying for", i.e., how many points that then need to be paid for as a result of the proceeds that Hilton is receiving, right? When you think about it, credit card customer is obviously doing all the spend and they're earning lots of points when they use their credit card. Well, those points have to be paid for. And then the question becomes how much do those points cost in the various programs? And then what else are you using the proceeds for relative to strengthening the program and also bringing profits to the shareholders? So, I do agree with you. I think a comparison probably doesn't make a lot of sense, given that the programs are likely to be very unique relative to the businesses that Hilton has and the credit card portfolio that they have, as well as the one that we have. We're thrilled with the 2 credit card portfolios that we have now in terms of through Amex and JPMorgan Chase and look forward to seeing what comes up when we are done with negotiations.

Joseph Greff - JP Morgan Chase & Co.: My first question is, Leeny, in your full year 2017 owned, leased and other revenue, net of direct expense guidance, of \$367 million, how much contribution in the first 3 quarters of this year is there from owned assets that have since been sold, just so we have a base to think about for the next couple of years to grow off of.

Leeny Oberg: Well, I'm going to have -- I'm looking to Betsy, but if I remember the comments, right, it's \$90 million for the full year in 2016 and it was \$21 million in Q4 from the assets that were sold. So that's the delta -- that's the contribution in each -- in the 3 quarters 2016 and 1 quarter 2016. And then year-over-year, we just know that we'll have what we have in Q4, which totals \$90 million versus the \$109 million. Betsy's handing me something, let's see what we have. Yes, Q3 year-to-date. Yes, it's not laid out the same way. But again...

Laura Paugh: Give us a call, Joe. We'll get to you...

Leeny Oberg: We can talk to it separately. But I do think what you are looking for is the \$90 million in 2016 and \$21 million. And then year-over-year, we do know that if we've talked about owned, leased being \$90 million versus what it was, \$109 million a year ago, you know that \$21 million last year was contributed to owned, leased profits from those assets that are no longer with us.

Joseph Greff - JP Morgan Chase & Co.: Okay, great. And then my second question, follow-up question. Is it fair to think that given your range of RevPAR growth and net rooms growth for next year with some incremental asset sale benefit that this \$3.5 billion of cash return or thereabouts is a sustainable level, absent some macro shock that moves some of those inputs that you talked about for 2018?

Leeny Oberg: Well -- so that's what I was trying to mention before, Joe. We clearly -- the \$500 million of excess cash that we're able to bring back is -- that was a onetime gig. So that obviously is not something I can recreate every year. And obviously, the asset recycling this year at, call it, \$900 million relative to what it would take to get us to the \$1.5 billion next year is obviously also going to be less. But at the same time, I think we see tremendous opportunities for the growth in the loyalty program, which tends, as it grows, to spit off more cash. So, with the exception of those 2 items and with continued strong growth in the company's EBITDA, we clearly see great strong numbers for share repurchase, but can't really get into -- we're not at the point in our budget process to be able to put certain numbers behind it.

Smedes Rose - Citigroup Inc.: I was just wondering, Arne, if you could just talk a little bit about the tenor of your corporate customers when you speak with them. You mentioned some caution going into 2018. And it's just interesting when we continue to see business CapEx spending go up and GDP forecast pretty good. I mean, what is your sense of kind of what is keeping people on the sidelines from either funding more group business or just more corporate transient business?

Arne Sorenson: Yes, and we've talked about this in the last few quarters and I wish we could be more definitive than we really can be. But I think when you listen to the stories out there, you see a broad range of individual stories where you've got obviously good average corporate profit growth, better corporate profit growth than revenue growth. But some companies are absolutely tonning it. And generally, we see from them the kind of behavior in travel that you would expect from those companies. In other words, that they are investing not just in capital items, but they are investing in operating costs and spending time with customers and coming together and using our hotels, whether it be for individual travel or for group travel.

I think there are also a number of companies where they are struggling to find revenue growth, and they are getting -- putting pressure on themselves and maybe, to some extent, getting pressure from the investment community to squeeze out profit growth in a relatively anemic revenue growth picture. And that's causing them to be a bit cautious on their spending on all things, including sadly, travel. And when you roll all those averages together, I think we are seeing a bit

more cautious behavior, on average, from companies today than we would have expected given GDP growth. And obviously, one of the questions we get often today given the GDP numbers of the last 2 quarters, the optimism in the market, people ask, "Are you seeing more healthy demand today from your corporate customers than a year ago, for example?" And I think generally, we would say, "No, it's about the same. It feels to us like the economy is growing at more or less the same pace it was before."

Now we don't have any reason to question the GDP -- reported GDP numbers, which do appear to be a bit better. So, the only explanation we can come up with is that there is just a bit more caution on the corporate side because of the stickiness of revenue growth on average. And again, if we see better GDP growth on a sustained basis, I think that's a positive thing and we may see some better performance come from that. But a little bit of it will depend on corporate behavior and whether it gets a little bit more bullish in our space.

Smedes Rose - Citigroup Inc.: Okay. And I just wanted to ask you, you guys announced this venture with Alibaba last quarter. Are you starting to see any benefits of that or is it too soon? The RevPAR out of China obviously continues to be very strong. Is that wrapping?

Arne Sorenson: We're off to a great start with Alibaba. We were doing some great things with them even before we announced the deal in August. Of course, we've got 11/11 coming up here in just a few days, which is a major Alibaba Chinese consumer event. And I think we continue to work with them on loyalty, particularly, with great sign-up from the kind of Chinese consumers we want to have. And so, we feel we're really off to a good start. The team is also working on some of the technology tools that are essential to drive even better performance going forward, but we're going to get great lift from this.

Thomas Allen - Morgan Stanley: Arne, in your prepared remarks, you talked about how in 2018 you expect full-service hotels to perform better than select-service. Can you just elaborate on that a little?

Arne Sorenson: Yes, I mean, that's our instinct at the moment. Again, we haven't done budgets year-to-date and I wouldn't invite you to think that it's dramatically different. But I think we are seeing -- generally, there is a bit more supply growth in the limited-service space than there is in the full-service space. And that's probably the easiest thing to look at for the explanation between the 2. I think group business, obviously, we've seen revenues up about 2 percent this year versus last. I think that should hold through the year. There is -- I mentioned on one of the earlier questions, that is 100 percent rate-driven, not roomnight-driven. So that's a better place to be even having that be driven by roomnights because it gives us some opportunity both on maybe some incremental group business or some transient bookings that would be taken away from us if it was occupancy-driven. But that's -- those are the primary things right now.

Thomas Allen - Morgan Stanley: Helpful. And then just as my follow-up, can you just touch on the direct booking push and the current relationship with the OTAs and the mix?

Arne Sorenson: Yes, there is not much new to report. The -- we are obviously continuing to focus on our loyalty program, which I mentioned earlier. And we are seeing contribution to our hotels around the world continue to grow from the loyalty program. That is really fabulous news for us, and we're going to continue to invest in the loyalty program in the way we've talked about, the way some of Leeny's answers already hinted at this morning. And I think that will continue to drive our loyal customers into our own channels as opposed to third-party channels. We do want to continue to have a good relationship with the OTAs where it comes to that occasional leisure traveler. And there are travelers who want to see that kind of range of pricing across portfolios. We're not particularly loyal to any system and so we'll continue do business with them. But I think we will also continue to use the tools that we have to try and grow our own channels at faster rates than we've experienced in the last couple of years. We're not in negotiations with any of the big OTAs until sometime later in 2018. We'll obviously keep you posted on that.

Patrick Scholes - SunTrust Robinson Humphrey: First question is a bit of a hypothetical one around the tax cut legislation. Let's say hypothetically, that did go through as proposed and you did see your tax -- your cash taxes go down. Would you envision the use of that extra cash flow along the lines of dividends and repurchases? Or would you see that more going to CapEx?

Leeny Oberg: Well, as I'm sure you know, we first look to how we can invest to grow our business. So, the reality is the way that we run the shop is more to figure out what are the things that we can invest in. And then with what's left over, what's the best thing to do, which is, for us, has been a choice to return it to shareholders and we continue to believe that's the right choice. So -- although you're right, we would expect there would be more cash, I think the answer will continue to be that we want to invest in our business to grow and strengthen our platform, strengthen our brands and add a lot more distribution and do everything we can to make our equation for the customer the most powerful one in the industry. And from that standpoint, we would look at it exactly the same way and then continue to return capital to shareholders.

Arne Sorenson: Yes, let me just jump in here and talk about this a little bit. Obviously, we have not been capital constrained in current times before tax reform. And so, our approach has been essentially to do the kinds of investments Leeny described if they make economic and strategic sense to us. And to the extent there is not enough of those and, clearly, there has not been enough of those because we're talking about returning \$3.5 billion to shareholders this year, that tells you that there is that much extra capacity which has been produced by our company that we don't need to invest in our system.

If you wave a wand and say tax reform is done and our tax -- cash taxes and book taxes decline by a certain amount, I don't think that by itself is going to change our capital availability, if you will. I think the longer-term question would be whether or not that has the impact of reducing our cost of capital, which could -- in some respects, could go into a calculation about whether or not there are investments that makes sense for us to do. But I think that's a longer-term more theoretical question and the shorter-term question is it's probably likely to go back to shareholders. And when it does, that's likely to go principally to American shareholders, which gets the dollars back into the American economy and the American economy should benefit from that, obviously not by Marriott

alone, but by that sort of story working its way through the American economy. And that growth in turn should create jobs and should create more capital investment in the U.S. economy.

Leeny Oberg: More demand for our hotels.

Arne Sorenson: Hopefully.

Patrick Scholes - SunTrust Robinson Humphrey: Very well said there. And then as far as my completely unrelated follow-up question, we're seeing InterContinental Hotels and Hilton making a push to get into sort of what we call the lower chain scale segment. Any thoughts on your end of opportunity there?

Arne Sorenson: Well, we're obviously reading all the news that we can read. I mean, one of the things that is interesting to us, obviously, we spent time at our analyst conference in March talking about our segment profile, which is much more dramatically skewed to luxury and upper-upscale and even upscale. And really, we're not playing in the mid-scale space at all. I thought it was interesting that statistic we put out in our prepared remarks that even in our limited-service pipeline, 50 percent of those assets in the United States are really urban and much more complicated, but that also means higher-rated hotels than the prototypical suburban hotel that you might think of when you think about limited-service. And obviously, we want to continue to be very strong on the higher end of the market. That doesn't mean we're going to ignore those suburban or secondary markets, but we want very much for our brands to be playing in a place where people are most inspired by travel and where they have the strongest memories and, coincidentally, where we can get the most profit contribution per room. And I think we'll continue to stay focused in that space for the time being.

Jeffrey Donnelly - Wells Fargo Securities: A few of mine have been answered. I had a question actually concerning rewards redemption. I've been hearing from owners that you guys are looking at revising, from what I would call a threshold, a sort of a phased threshold on redemption travel. And I guess, I'm curious. I would think that cliff-type threshold would create sort of an adverse pricing behavior. And I'm just wondering if you think moving away from that is actually beneficial for rates in the industry, because I would think owners tend to discount to get over that occupancy threshold.

Arne Sorenson: And that's exactly what I was trying to refer to in one of the earlier answers. We have moved already some, but I think we'll continue to move. Right now, it depends a little bit on the brand. Luxury has got a bit lower threshold for obvious reasons. They tend to run occupancies which are a little bit lower than the upper-upscale hotels or the upscale hotels. But essentially, the way it works now is, once you hit a certain percentage occupancy, your redemption rate is meaningfully higher. And so, if I'm one room away from hitting a 95 percent threshold, it's in my interest to fill that room almost no matter what rate I get. Now we've already got some gates that preclude them from giving that room away or giving it away at a discount which is too profound. But still it drives behavior, which is dropping rates closer to stay. And I think if we can avoid that

sort of cliff feature, which I suspect we will do, we'll end up with that much less economic incentive for hotel owners to drop rates as we get closer to the night of stay.

Jeffrey Donnelly - Wells Fargo Securities: Have you ever quantified how much of a drag that creates?

Arne Sorenson: We've looked at this and we've looked at the other third-party players that are out there. We don't think it's material, generally, today. But anecdotally, we hear it pop up occasionally and so we think it's something we need to address.

Jeffrey Donnelly - Wells Fargo Securities: And just one follow-up if I could. Just one of your competitors talking about rebuilding their reservation system to incorporate, I guess, I'll call it modern technology and new forms of guest interaction. Do you think that the Starwood-Marriott combination allowed you to bring your systems to that level that, I guess, let's say, sets a future standard? Or do you foresee the need as you look about your own capital planning in the next 3 to 5 years to make a more significant investment in your back-of-house systems?

Arne Sorenson: We have had extraordinary levels of investment in new reservations, modern reservations approach, as well as in property management system and some of the other systems already for the last couple of years. And obviously, one of the reasons we did the deal is we think we can be much more cost-effective by using these dollars to support 1 program instead of 2 programs. And we'll continue with that.

Chad Beynon - Macquarie Research: Just was wondering on RevPAR index, I know a big part of the merger, Leeny, you outlined the cost synergies, but there is obviously some revenue synergies. If you can move up the RPIs from some of the Legacy-Starwood assets, mainly Sheraton, wondering if you saw anything in the quarter that kind of portends positively for RPIs to go up. And then kind of the side question on that is, is anything assumed in 2018 in terms of higher RPI gains from the Starwood assets?

Arne Sorenson: Yes, thanks very much, and I'm glad you asked that question. In the quarter, we were up modestly in terms of RevPAR index, essentially in most segments and in most regions around the world, and we're quite encouraged by that. We've said before that the most powerful drivers of the lift from the merger are going to be driven by the combination of the loyalty programs and by the combination of the sales force and other efforts on -- to drive top line.

We are -- we did, at closing, obviously drive good functionality between the 2 loyalty programs, but we are yet to merge them into one. We remain optimistic that we'll be able to do that in 2018. And I think when we get that done in 2018, there is every reason to believe we're going to drive better share of wallet.

On the sales side, the bulk of the sales forces have just recently been brought together and I think that will be helpful, too. So, we would expect that we will continue to see some improved index performance in 2018 and probably particularly after 2018 when we get the synced loyalty program

put together. We're really gratified that we're off to a great start because as we said before, this is probably the highest risk time because the revenue we're experiencing in hotels today is, to some extent, driven by group bookings and other things that were done in earlier periods, including times when the uncertainty of the acquisition was most pronounced. And to not have a dip after closing is really very encouraging to us and in fact, to have some index gain is pretty powerful.

David Beckel - Bernstein Research: This is Apple speaking for Dave Beckel. Another question on the tax reform. Some of your corporate partners you talk to, do you get the sense that their spending will meaningfully increase if the tax reform is passed by the end of the year. And if so, do you believe your North America RevPAR could exceed the top end of your 2018 guidance range?

Arne Sorenson: Yes. And probably in the way you've asked the question, not necessarily. I have participated in a number of events with a whole bunch of our corporate customers recently. And I think, generally, the view from our corporate customers, not surprisingly, is if tax reform gets done, it will be a boost to the economy, a boost to their fortunes and a boost to GDP generally. And in that sense, I think they would be a bit more optimistic about growth. But we haven't necessarily said to folks, "Okay, if you get a tax cut, are you going to travel more?" That seems a little concrete. There is obviously plenty of uncertainty about tax reform, both the timing and the details of what might get passed.

Wes Golladay - RBC Capital Markets: Can I get your high-level views for international travel next year to the U.S. was sort of baked into your preliminary guidance? And we've seen the Department of Commerce data showing international travelers are spending more money here, but it looks like the volume is actually down.

Arne Sorenson: Yes. The -- to be fair, we are early enough in our budgeting process that I wouldn't say that we've been real specific about forecasting international arrivals to the United States as part of our budgeting process. A couple of statistics to remind you of. We think about 4 percent, maybe 4 percent to 5 percent of business in the United States is driven by international arrivals. You shouldn't be surprised to hear that the bulk of that is going to be in coastal destinations where international arrivals tend to be concentrated. The statistics we have about international arrivals to the United States in 2017 are frustratingly difficult to get. We obviously can look at our own system. There is Department of Commerce data. There is data that comes through OTAs and credit card companies and others that we're all trying to triangulate to try and sort this out. It looks like, though, that there has been a modest decrease in international arrivals to the United States from all foreign sources in 2017. That's not really all that surprising. That is in the context of what we estimate to be something like a 7 percent increase in global international arrivals. In other words, travelers crossing national boundaries and landing someplace else. And so, the U.S. is declining in a market that is increasing globally, which means the United States is losing share.

Does that change in 2018? We'll have to see. I would guess that we'll continue to see pretty powerful tailwinds which are driving growth in international travel. Think about China outbound business. We had some statistics on that earlier in the call. Think about Asian GDP growth. Think about European GDP growth. Both of those are positive areas and I think that will tend to drive

travel, particularly leisure travel. We would love to see the U.S., while focused on security, which is perfectly appropriate, also continue to make sure that the rest of the world hears the voice that travelers are welcome to come and vacation here and do business here. And hopefully, the U.S. won't continue to lose much share, but we'll have to watch that in the future.

Wes Golladay - RBC Capital Markets: Okay. And then transitioning using that last segment for the Asia Pacific region, the consumer is quite strong, but are you seeing any uptick in business travel in Asia? Are you gaining corporate accounts? Are you gaining group accounts? Do you have a lot of share gain based on that high single-digit RevPAR this quarter?

Arne Sorenson: Well, I mean, you could -- yes, the answer is yes. Our -- you can tell from the absolute RevPAR numbers coming out of Asia, the China numbers that we put out this morning, our index performance in Asia has been spectacular. I mean, we are at enormous RevPAR index premiums to the competitive market and we're growing them substantially year-over-year. So, there is a ton of good news coming out of that.

Michael Bellisario - Robert W. Baird & Co.: Just kind of thinking about 2018, but also more so just on a go-forward basis as you think about leveraging your larger platform today. What's the message that you're trying to send to owners, to operators as they're trying to push rate during corporate negotiations and enforce tougher group contract terms, for example? Basically, how aggressive are you trying to be? And are you taking more of a first-mover approach now, given your bigger scale.

Arne Sorenson: Yes, I mean, that's an important question. Obviously, franchise operators are very much responsible for their own pricing. And we can make some revenue management tools available to them. We can use some tools which help them participate in corporate RFPs, for example, which we do. But generally, they're going to make the decisions they think are the right ones to make. We are, though, in the context of that, trying to make sure that we do things like the 48-hour cancel and whether that applies -- should apply to the corporate accounts. And we obviously want to make sure that we are doing what we can in the managed portfolio to take advantage of the fact that we've got hotels that are running significant occupancies. And we think there is pricing potential, particularly in these midweek nights when overwhelming number of hotels are essentially full. And so, we're doing the best we can to go through that.

Michael Bellisario - Robert W. Baird & Co.: Got it. That's helpful. And then just one follow-up maybe for Leeny. Of the probably \$510 million or so on the balance sheet, any of that left overseas or was everything bought back earlier this year?

Leeny Oberg: I think there is a little bit more that we do hope, over time, to be able to get, but that is -- for the moment, that was all done earlier this year.

Chris Agnew - MKM Partners LLC: Can you provide any update on the discussion with the 2 timeshare companies about access to the loyalty program? And could they hold up your plans to combine the program in 2018?

Leeny Oberg: Sure. Thanks for your question. Yes, we're actively talking to the timeshare companies. As we've said before, that to be able to fully completely unify our loyalty program, we need to work it out with both our credit card partners as well as our timeshare partners. And we are in the process of doing that right now and are hopeful that we'll get there soon.

Arne Sorenson: All right. Well, thank you all very much for your time and attention this morning. We appreciate your...

Leeny Oberg: I have an answer to Joe Greff.

Arne Sorenson: Okay, go ahead.

Leeny Oberg: So we talked -- Joe, just in case you're listening, I know you were asking a question about year-to-date owned, leased profits from the assets sold in 2017 in addition to 2016. We've given the numbers for 2016. For 2017, the hotels sold in 2017, the assets -- the owned, leased profits through September 30 were \$43.5 million. And with that, I think we're done.

Arne Sorenson: All right, thank you all very much for your time and attention this morning. We appreciate the opportunity to welcome you all in your travels.

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Note on forward-looking statements: This press release and accompanying schedules contain "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add to or remove from our system in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this press release include changes in market conditions; changes in global and regional economies; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and the extent to which we are able to continue successfully integrating Starwood and realize the anticipated benefits of combining Starwood and Marriott. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this press release. We make these forward-looking statements as of November 7, 2017. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.