Marriott International, Inc.
Third Quarter 2016
Earnings Conference Call Transcript[1]
November 8, 2016

Operator: Welcome to the Marriott International third quarter 2016 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: Good morning, everyone. Welcome to our third quarter 2016 earnings conference call. For those in the U.S., "Happy Election Day". We are pleased you are taking the time to listen to our earnings call, but we hope you also get to the polls today. 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.

Before we get started, 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 last night, along with our comments today, are effective only today, November 8, 2016, and will not be updated as actual events unfold. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.Marriott.com/investor.

There are several topics we want to cover today, including our third quarter financial results, third quarter business trends, fourth quarter guidance, and our early look into 2017. But first, we want to talk about the Starwood acquisition and the integration.

This is the first earnings call for the new Marriott International. On September 23, we completed the most transformational transaction in the company's history. Including the pipeline, our global system encompasses nearly 1.6 million guest rooms today.

Our near term priorities are straightforward…reach out to associates to knit the company together culturally; seize as soon as possible top line synergies, property cost efficiencies and $250 million in G&A savings; and do all this while remaining focused on our ongoing business… providing great experiences for our guests and driving returns for our owners and franchisees.

Off to a fast start, our team did what no other large consumer company has accomplished; within minutes after the merger closed, we linked three enormous loyalty programs, Marriott

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

Rewards, Ritz-Carlton Rewards, and Starwood Preferred Guest, further announcing that we would match member status between the programs. We immediately enabled our loyal travelers to earn points in one program and redeem in the other. In fact, over 3.3 billion points were transferred between the programs in the first month alone, while the first transfer and redemption reservation occurred just 15 minutes after we closed the transaction.

That effort did not go unnoticed by customers and commentators. Blogger Gary Leff, who writes *"View From the Wing"*, noted to his readers that: "…no program has ever set up a mechanism to link accounts this quickly." And my favorite quote came from a loyalty member who tweeted: "Don't know if I'm more excited about linking Marriott Rewards or the fact that pumpkin spiced lattes are back."

Getting the loyalty programs right has been a big priority for us since the deal was announced. Today, we are pleased to confirm that only 16 percent of our combined 85 million members were members of both programs prior to the merger. This puts us in a tremendous position to capture incremental business.

Immediately after closing, we also reached out to our largest B2B customers to tell them the great news and to begin cross-selling across our 30 brands. For our group business, we've seen over 1,000 lead referrals through the end of October between the Starwood and Marriott portfolios.

We are moving quickly to reduce costs, both in G&A, as well as costs for our hotels. Procurement is a near term opportunity. Starwood managed hotels will begin transitioning to Avendra, the purchasing platform used by Legacy-Marriott hotels and many other companies, in the fourth quarter of 2016.

Next year, we should see savings on OTA contracts. With its greater scale, Marriott has historically been able to obtain more attractive OTA contract terms. While savings to Starwood hotels will vary by region, applying Marriott's contract terms should save Starwood owners OTA commissions, even assuming no change in OTA usage… with more savings expected in 2018.

We know that you are anxious to hear much more about our integration strategy and synergy opportunities, but let us ask you for your patience. The hotel business is about details. Every market is different and every property is different. We can tell you we've reviewed and assimilated a tremendous amount of information from Starwood over the last six weeks and that we remain as enthusiastic about the transaction as ever.

While the deal is very exciting, we are also focused on business fundamentals. While reported third quarter financial results included only eight days of Starwood results, today's outlook is drawn from an analysis of operating trends at both companies for all three months of the quarter. Our outlook for the fourth quarter and 2017 reflects the combined company.

Clearly, North America demand growth continues to moderate. In the third quarter, hotels with the weakest RevPAR were generally in oil and gas markets… or in gateway cities affected by continued weak international visitation or impacted by new supply. In the quarter, both Legacy-Marriott and Legacy-Starwood portfolios did well in Hawaii, Los Angeles, Toronto, and Washington, D.C., while both portfolios saw RevPAR declines in Houston, New York, and San Francisco.

On a combined basis, North America company-operated group RevPAR increased nearly 7 percent, benefitting from strong demand and a favorable holiday comparison. Catering revenue continues to be strong. New group business is encouraging, too. In the third quarter alone, Marriott and Starwood's sales organizations booked a combined 3.6 million room nights for future periods. Measured by booked group revenue, the two companies booked 6 percent more business than in the prior year, with particular strength for stays in 2018 and beyond.

In contrast, corporate customers are clearly cautious. In our last earnings call, we mentioned the trend in room sales among Legacy-Marriott's largest 300 corporate customers in North America… from 4 percent RevPAR growth in the fourth quarter of 2015, to 2 percent in the first quarter, to less than one percent growth in the second quarter. For this quarter, room revenue from Legacy-Marriott's top 300 customers was flat year-over-year as higher demand from professional services, retail and healthcare firms was offset by lower demand from technology, financial, energy and manufacturing companies.

Looking ahead in North America, fourth quarter group RevPAR pace for our company-operated Marriott and Starwood full-service hotels is down about 5 percent, reflecting tougher holiday comparisons combined with weak near term corporate bookings. With greater availability, transient business should improve year-over-year. As a result, we expect comparable hotel RevPAR for the combined systemwide Marriott and Starwood portfolios in North America will be flat to up 1 percent in the fourth quarter.

Outside the U.S. third quarter performance of the Marriott and Starwood brands was very similar when adjusting for differences in geographic distribution. Across both portfolios in the Caribbean and Latin America region, RevPAR growth was very strong in Brazil and Mexico, but was constrained by Zika in the Caribbean, weak economic growth in South America and new supply in Central America. For the fourth quarter, we expect Zika will continue to be a problem for the combined portfolio and, without the Olympics, we expect Brazil hotels will more acutely feel the effect of the weak economy. As a result, we expect fourth quarter RevPAR for our hotels in the region will be flattish with the prior year.

In the Middle East and Africa, easy Ramadan comparisons took Marriott and Starwood RevPAR higher in the third quarter, along with greater leisure business in South Africa and strong regional demand in Cairo. At the same time, many oil markets remained weak. Without the benefit of a holiday shift, we expect fourth quarter RevPAR for our combined portfolio in the region will decline at a low single-digit rate.

In the Asia Pacific region, Marriott and Starwood saw third quarter RevPAR improvement in India, South Korea and Shanghai with declines in the Maldives, Macau and tertiary markets in China. In the fourth quarter, we expect RevPAR for the combined portfolio should be flattish year-over-year, constrained by the cancellations that followed the death of the king in Thailand.

In Europe, Marriott and Starwood occupancy in Paris, Brussels, and Istanbul was weak in the third quarter, while our U.K. properties welcomed a greater number of Middle East travelers in the quarter. Hotels in Poland, Russia, and Spain reported strong RevPAR growth. For the fourth quarter, we expect RevPAR for the combined portfolio to be flattish year-over-year due to lingering terrorism concerns, weak group pace in London, Paris, and Amsterdam, and tougher comparisons in Poland and Russia.

Bottom line, we expect worldwide constant dollar systemwide RevPAR will be flat to up one percent in the fourth quarter.

Looking ahead to 2017, our North America outlook assumes a “steady as she goes” economy and modestly higher supply growth. For the 2017 full year, North America revenue group pace for company-operated full-service hotels across the Marriott and Starwood portfolios is currently up about 2 percent. For transient business, we expect current weak corporate demand to persist, although comparisons should get easier. We are targeting a higher volume of special corporate rate business for the coming year and expect special corporate room rates for comparable customers to increase at a mid-single digit rate in most markets. We are aggressively marketing to leisure guests and adding contract business at attractive rates. As a result, for 2017, we expect North America RevPAR for the combined portfolio will be flat to up 2 percent. In 2015, on a pro forma basis, North America fee revenue from the combined Marriott and Starwood portfolios totaled 70 percent of worldwide fee revenue.

Outside North America, in 2017, we expect international constant dollar systemwide RevPAR for the combined portfolio will be flat to up 2 percent. RevPAR in the Caribbean and Latin America region should also be flat to up 2 percent reflecting good performance in Mexico and Central America. In 2015, Caribbean and Latin American pro forma fee revenue from the Marriott and Starwood portfolios totaled 4 percent of worldwide total fee revenue.

For the Middle East and Africa region, South Africa and Cairo should be strong, but we also see continued weak oil markets and risk of political disruption. As a result, we believe RevPAR will be flattish in the region in 2017. In 2015, on a pro forma basis, Marriott’s and Starwood’s Middle East and Africa region contributed 5 percent of worldwide fee revenue.

For 2017, the combined portfolio in the Asia Pacific region should see continued strength in India and Shanghai more than offsetting weakness in Macau and tertiary markets in China, yielding a RevPAR increase at a low-to-mid-single digit rate. In 2015, on a pro forma basis, Asia Pacific region fee revenue totaled 13 percent of worldwide fee revenue, with about half of that coming from Greater China.

And finally, for Europe, we expect low-single digit RevPAR growth in 2017 with particular strength in Southern Europe and easier comparisons in Paris and Brussels. In 2015, on a pro forma basis, Europe contributed 8 percent of worldwide fee revenue.

On a worldwide basis, we expect 2017 RevPAR will be flat to up 2 percent.

Turning to development…. For 2016, we expect our combined company should grow global rooms distribution by roughly 5 percent, net of deletions. Project delays at both Marriott and Starwood have pushed a few openings to early 2017, but new deal signings remain very strong. As of quarter-end, our combined pipeline totaled nearly 420,000 rooms. For 2017, rooms growth should accelerate to roughly 6 percent, net of deletions.

In the U.S., the combined Marriott and Starwood brand portfolio represents 14 percent of open rooms, yet we have an industry leading 36 percent of rooms under construction in the U.S., and 23 percent of rooms under construction worldwide. To be sure, leverage levels on new construction loans have moderated and construction costs are also increasing. While these conditions are not likely to change supply growth in the near term, we believe they should discourage marginal new projects from moving forward. They should also enhance our share of new construction as lenders continue to favor the strongest brands. Incidentally, our combined portfolio of hotels gained RevPAR index globally in the third quarter and we are optimistic that we will see further gains as we realize revenue synergies.

We continue to be optimistic about the Starwood acquisition. Six weeks after closing, we've accomplished a great deal. We will continue to do the hard work necessary to be the best hospitality company for our owners, franchisees, associates, guests…and for you…our investors. Now I'd like to turn the call over to Leeny for a review of our financial results and some additional color on fourth quarter and 2017. As I do, let me first offer my thanks to Leeny and the finance teams across Marriott and Legacy-Starwood. Closing our acquisition just eight days before the end of the quarter was not ideal. But they scrambled and they did it beautifully. Thank you all. Leeny.

Leeny Oberg: Thank you Arne. As you saw last evening, we reported diluted earnings per share for the quarter of 26 cents. GAAP results were constrained by $237 million of merger-related costs, including $186 million of severance and retention costs, $24 million of transition costs, $18 million of transaction costs and $9 million of interest expense, partially offset by the eight days of Starwood's operating results.

To provide visibility into Legacy-Marriott's performance in the quarter, we've adjusted third quarter results by backing out the eight days of Legacy-Starwood results and merger-related costs, as well as conforming the share count.

As a result, adjusted diluted earnings per share for the Legacy-Marriott business totaled 91 cents, a 17 percent increase over the prior year. Compared to our July 27th guidance, adjusted fee revenue was $6 million below the midpoint of expectations due to more modest RevPAR growth and lower than expected application and relicensing fees.

Still, on an adjusted basis, our operating income of $378 million exceeded our guidance of $370 to $375 million, as we saw good performance on our owned, leased and other, net, line; lower than expected depreciation and amortization expense; and better than expected G&A spending due to solid cost controls and some open positions.

Adjusted fee revenue for the Legacy-Marriott business increased 6 percent with incentive fees up 13 percent in the third quarter. While Legacy-Marriott RevPAR and unit growth drove fees higher, fees were constrained by $9 million of unfavorable foreign exchange. Worldwide house profit margins for Legacy-Marriott increased 90 basis points for company-operated hotels as many hotels are already focused on cost containment in a slower RevPAR growth environment. Strong results at our owned and leased hotels reflected recently completed renovations in Tokyo and Charlotte; the addition of two new hotels in Rio de Janeiro, which benefitted from the Olympics; and stronger branding fees. Adjusted G&A increased 3 percent year-over-year. The increase in interest income reflected a larger portfolio of loans.

Marriott's third quarter adjusted EBITDA, which excludes merger-related costs, totaled $474 million, a 10 percent increase over the prior year.

So let's talk some more about the transaction. We've presented selected pro forma third quarter information on page A-16 of the press release, assuming the Starwood acquisition and Starwood's sale of its timeshare business had been completed on January 1, 2015, but using the estimated fair value of assets and liabilities as of the actual closing date of the acquisition. Incidentally, we expect to provide a more detailed pro forma income statement for historic quarters in the next couple of months after we fine tune purchase accounting estimates.

So, combining Marriott's and Starwood's information, pro forma fee revenue totaled $723 million for the third quarter, an increase of 5.5 percent over the prior year, reflecting RevPAR and unit growth. Owned, leased and other revenue, net of direct costs, totaled $166 million, an increase of more than 21 percent. As I mentioned earlier, Marriott owned and leased hotels benefited from recently completed renovations and the Olympics in the third quarter. Results for Legacy-Starwood owned and leased hotels were also strong, particularly in Hawaii, Toronto and Brazil. Starwood RevPAR at comparable worldwide owned and leased hotels increased more than 8 percent in the third quarter with particularly strong profit flow-through.

For the fourth quarter, we expect fee revenue should total $695 to $705 million, an increase of 1 to 2 percent over prior year pro forma fees. Our fee growth reflects roughly 5 percent unit growth. Fees are growing slower than units due to modest RevPAR growth in North America, lower RevPAR in the Middle East, and resulting lower profit flow-through and a modest decline in incentive fees. We also expect some negative FX impact, the impact of several contract changes and some give-backs of IMF recognized earlier in 2016.

We expect fourth quarter owned, leased and other, net of direct expenses, should total roughly $150 to $155 million. In the year-ago quarter, pro forma owned, leased and other, net, included $3 million from hotels that have since been sold by Starwood and $11 million in termination fees. While Arne outlined our RevPAR expectations for the fourth quarter and 2017, in case you have a different view, we estimate that a 1 point change in our RevPAR outlook across today's combined Marriott/Starwood system, assuming it was evenly distributed, would be worth about $35 million in fees and roughly $8 million for owned, leased, and other, net.

We expect depreciation and amortization will total $70 to $75 million. Excluding merger-related costs, we expect G&A to total $235 to $240 million in the fourth quarter, 16 to 18 percent lower than the pro forma prior year. Our anticipated fourth quarter 2016 G&A results should benefit from $8 million from a legal settlement, while the pro forma fourth quarter 2015 G&A included $5 million in Marriott merger-related costs.

Fourth quarter operating income should total $530 to $555 million, a 9 to 14 percent improvement over 2015 pro forma levels.

As Arne described, we are working hard to integrate the companies as quickly as possible. We expect to finalize the organization structure for most regions and departments during the fourth quarter, but some may not be complete and in-place until mid-2017. During 2017, we will also have wind-down costs included in G&A related to some duplicate systems, facilities and other areas of overlap. As a result, estimating quarter-to-quarter G&A in 2017 is challenging, but we expect to see significant progress toward our expected $250 million in G&A savings during the year. We expect to realize the vast majority of the savings by 2018.

For depreciation and amortization, you may recall that we estimated Marriott standalone depreciation and amortization at roughly $130 million for 2016 during our last earnings call. In the 8-K filed on March 25, 2016, we estimated a run rate for incremental depreciation and amortization from the transaction would total $209 million annually. Combined with Marriott standalone D&A would imply a $339 million annual D&A run rate for the combined company.

Now that the transaction has closed, we have completed a preliminary allocation of our purchase price to the fair value of Starwood's assets and liabilities, which will be included in our upcoming 10-Q, likely to be filed tomorrow. This current view puts incremental D&A at closer to $140 to $150 million annually, and puts total D&A for the combined company at a roughly $270 to $280 million run rate.

Compared to our prior depreciation and amortization estimates, our current view reflects updated information, a refined analysis of the value of the acquired assets and liabilities, the impact of Starwood's successful asset sales year-to-date and the classification of several owned assets today as "assets held for sale".

Purchase accounting rules provide a timeframe of up to one year from the date of the acquisition to update allocations based on new information learned about the asset values as of the date of the acquisition. Therefore, in the coming year, there could be changes to these allocations and resulting catch-ups could impact our P&L on the D&A line.

We remain disciplined in our approach to capital investments and share repurchases. For the full year 2016, we estimate actual investment spending will total $425 to $475 million. Included in this amount is roughly $75 million for investment spending for Legacy-Starwood brands in the fourth quarter. The Legacy-Marriott amount is about $125 million lower than last quarter's estimate largely due to fewer development-related investments than previously expected.

When we announced the proposed acquisition of Starwood, we outlined the opportunity to sell owned hotels for $1.5 to $2.0 billion over 2 years. Of this amount, Starwood has already completed the sale of 5 hotels for $325 million. Today, we own 15 hotels operating under the Starwood brands. In 2016, we believe these owned hotels could generate EBITDA of approximately $180 to $190 million. Eight of the hotels are in North America with the remainder largely located in Latin America. We believe we can monetize these hotels for north of $1.5 billion, with the North American assets likely to be sold relatively faster.

We also believe there may be an opportunity to monetize some of Starwood's joint venture interests, which could recycle additional capital. At this time, we aren't prepared to offer an estimate of proceeds.

Our balance sheet is in a better position than we anticipated. As you know, the transaction took over 10 months from announcement to closing. During this time, both companies accumulated cash from operations, as well as proceeds from asset sales. Additionally, in conjunction with the transaction, Starwood used excess cash to reduce debt balances by nearly $800 million. As a result, at the end of the third quarter, Marriott had $8.8 billion in total debt and $1.1 billion in cash.

As part of the acquisition, we reorganized the company's entity structure to facilitate the combined company's global operations. Given the new entity structure put in place as part of this reorganization, we expect global cash balances will continue to decline in the near term.

Our debt ratio at September 30 is better than our earlier forecast by roughly 40 basis points, driven fairly equally by improved EBITDAR, higher overall cash balances from the delay in the transaction, higher confidence in our ability to use all of Starwood's cash, and then to a lesser extent, better estimates of our increased lease commitments as a result of the transaction. We believe today that we are within the range of our targeted 3 to 3.25x adjusted debt to adjusted EBITDAR credit standard, excluding the impact of merger-related costs and charges. As a result, we expect to resume share repurchases this quarter.

We know that you are eager for more information about the combined company.

We will have much more to say about 2017 in February and when we hold our Analyst Day in March, but as you can tell, for now we feel very good about our brands, our business, and our progress in integrating Starwood. Now let's get to your questions. So that everyone gets a chance to participate, please limit yourself to one question and one follow up.

Question and Answer Session:

David Loeb - Robert W. Baird & Company, Inc.: Wow, thank you for taking me first. Good morning.

Arne Sorenson: How about that? Good morning, David.

David Loeb - Robert W. Baird & Company, Inc.: I appreciate that. There's a lot of interesting stuff to discuss in this and a lot of really good progress, but I want to focus on one particular issue, which is the ongoing book direct initiative.

And I wonder if you can give us an idea about how you are viewing that relative to the owners? What you think -- what impact do you think that's having on RevPAR, on ADR, in particular? And do you think the owners are seeing an offsetting or partially offsetting decrease in OTA commissions as a result of that initiative?

Arne Sorenson: Well, I -- it's a good question and I wish we could be more definitive about it. I think it's still relatively early in assessing the impact of this. What we've seen so far is encouraging to us. But I think, fairly, we don't have statistics that we can use that would prove to you that we have delivered true success from this yet.

But the early statistics, we see a high level of sign-ups -- I think something like 800,000 or 900,000 incremental Marriott Rewards sign-ups since member-only rates were launched. I think we are getting through the din of the marketing battles, as we've talked about in the past. There was a perception that rates at our hotels were cheaper on channels other than our own, which has not been true for well over a decade.

And we wanted to really find a way to break through that noise and make sure folks knew that they could get competitive rates by booking directly with us. And going so far as to say there's a bit of a discount, actually, if you book directly with us. We thought was a powerful way to get there.

And so we are seeing good pickup of that marketing message; good stickiness with the loyalty program. Obviously, though, the discounts are available to folks who would have booked directly previously, as well as folks who might be booking directly now for the first time. And that has, continues to have, a very modest impact on RevPAR we think in Q3. Probably about 30 basis points. And you know, we'll watch it as we go forward. Obviously this is something we talk with our owners about with some regularity. And I think, generally, the community, to include us and our owner-partners, is supportive of continuing to pursue this. So, it's all systems go.

David Loeb - Robert W. Baird & Company, Inc.: Okay. And on the cancel/rebook technology, what are your latest thoughts? I know I've asked this before, but what are your latest thoughts on how you might combat the impact of that technology going forward?

Arne Sorenson: Yes. I mean, the first thing to note is, we don't see a material impact from that yet in any event. So, we obviously continue to watch it. We are looking at cancellations, generally, what's happening across our portfolio, and we're looking at it in individual markets. And I think -- you know, stay tuned. That's something we'll continue to watch.

David Loeb - Robert W. Baird & Company, Inc.: Okay. Thank you all very much.

Smedes Rose - Citigroup: I wanted to just ask -- you're taking a little bit more of a conservative stance on your RevPAR outlook for 2017 versus your largest U.S. competitor. You're at 0 to 2. And I'm just kind of curious, what do you think you are seeing now that we are a little -- a few weeks further on here -- than when they reported, that maybe has kind of changed your view? Or are you just sort of just taking a more conservative outlook, given what you are seeing in the economy?

Arne Sorenson: We obviously don't know exactly how they came to the range that they've provided when they released earnings. So it's a little difficult for us to provide a real detailed comparison.

Having said that, and listening to the words that they used, and going through our own process, I think there's a couple of things that we would say. One is, I think we would be providing exactly the same guidance if we were simply Legacy-Marriott. So the first thing to point out is, this is not a range which is driven by the recently completed merger with Starwood.

I think the second thing -- and my guess is this is more or less the full explanation you'll get -- is that we expect GDP to continue with the sort of anemic numbers that have been posted in 2016 as we go into 2017 and beyond. And it sounded as if one of our largest competitors was expecting a rebound of some sort in GDP.

We hope they are right. Obviously, if GDP performs stronger, that will increase demand strength in our business. But we're building a model that essentially assumes we'll continue to bump along at the levels we've been at.

Smedes Rose - Citigroup: Okay. And then just sort of on that, I think on your last call, you noted that group RevPAR was pacing up 7 percent in 2017, and you called it to 2 percent now. Is that pace of deceleration kind of normal as you move through towards the end of the year? Or is that a faster pace than what you would've expected?

Arne Sorenson: Yes, I mean, I think it's faster than we would've expected. If you go back to the full-year, I think we started in -- and Laura can maybe pull this out as we talk -- but I think we started 2016 with group business up almost 10 percent for 2017 compared to where we were at the first of 2015 for 2016. And I think we cautioned folks that that was not likely to hold. Because as we got further into the year, we would see that we could book less because we had less capacity.

And so we expected that we would tail down towards the maybe mid to high-single-digits. But I think the experience in the last quarter or so, going from roughly 7 percent to roughly 2 percent, is worse than we anticipated. I think there are a couple of -- one positive thing that could be said next to that. When you look at bookings done in Q3 for all future periods, we were up about 8 percent, if memory serves.

So, people are still making commitments on group business and there's good growth. But, when you look at the near-term, when you look at group bookings in the year for the year or you look at group bookings for the next 12 months, we see less robustness there. And to us that's a sign of some caution by corporate customers, probably particularly who -- you know, in a sense, that's where group business gets most like corporate transient business, too. And there, I think we're seeing companies be just a bit cautious and probably reflect the sort of anemic GDP growth environment that we've been all operating in.

Smedes Rose - Citigroup: Great, thanks for the additional color.

Robin Farley - UBS: I wonder if you can give a little bit of color -- it looks like the percent of properties -- I think this is just Legacy-Marriott properties -- paying incentive management fees was down year-over-year. I wonder if you could give a little bit of color around that?

Leeny Oberg: Right. Overall, we've got Legacy-Marriott. Just a couple of interesting facts for you is that, in general, the percentage of hotels earning incentive fees for Starwood is slightly higher than Marriott, given their international exposure. For us, it's actually down year-over-year only barely, only by 1 percentage point difference, so it's not really anything meaningful, and really is again a reflection of certain markets' experience for RevPAR.

Robin Farley - UBS: Okay, great, thanks. And then I wonder if you could give a little more color around the cut in the capex budget just for the Legacy-Marriott properties since three months ago? So down by about $125 million, so it's a pretty significant percent of the full-year budget that changed in the last three months, if you can give a little color. Thanks.

Leeny Oberg: Sure. It's -- as you know, as we begin a year, we have a range of projects that we're looking at and, overwhelmingly, they're identified. And what happens as we move through the year, you are looking at the pace of those deals. And in general, I would say it's just that the deals continue to move forward, but they've been pushed out a little bit.

So I don't think it's a reflection of deals dropping away, but more that they are taking a bit longer to put together. It ties in with what you are hearing in the lending environment that lenders are, at the margin, a bit more cautious. And as we are looking at, in some cases, putting in mezzanine loans, they are taking a bit longer to put the deals together. But they continue to be in our pipeline. And we look forward to doing them as we move forward.

Robin Farley - UBS: Okay, great, thank you.

Harry Curtis - Nomura Securities Intl: The owned and leased segment was particularly strong. It's been strong all year. Can you talk about the components of that? And as you look into 2017, what would you expect to remain strong? And what's going to face a tough comp?

Leeny Oberg: So a couple things. I think when you look overall, let's first talk a little bit about Legacy-Marriott. Legacy-Marriott had strong owned/leased performance for its owned/leased hotels, and then particularly strong performance on the branding fee side, where we've had meaningful growth year-over-year compared to 2015.

As you go into 2017, we're just in the process of putting our budget together now, so we wouldn't really be able to comment on anything specifically. But as you look at kind of tough comps across the board, again we are continuing to look for our owned/leased portfolios to do well. And for the branding fees to continue, we've got a great pipeline of projects to continue to do well.

I think the part I would point out is the owned/leased portfolio on the Starwood side, we clearly are seeing the impact of their sold hotels. So as you look at that going forward, you would see the owned/leased profits related to that, that would kind of, on a year-over-year basis from 2017 to 2016, decline. And then you've probably got a couple one-off, like the Olympics in 2016. But again, the biggest impact I think will be the change in owned hotels on the Starwood side.

Harry Curtis - Nomura Securities Intl: Thank you. And just moving to the second question. I was really interested, and may have missed something in -- has there been a change in the way that you calculate your leverage ratio by incorporating or moving to EBITDAR? The reason I ask is that, is that part of the reason why you've achieved your target leverage ratio? And I'm guessing that the rating agencies are fine with it?

Leeny Oberg: Yes, so no change. No change in the way that we construct the ratio. As I pointed out in my comments, there were some changes relative to the calculation that we gave you a number of months ago, based on better information. So, whether it was the fact that you had better performance particularly in Starwood's owned/leased portfolio, where I talked about them being able to produce $180 million to $190 million of EBITDAR in 2016, to better information on the lease adjustment, for example, that's in addition to the debt in your calculation of total adjusted debt for your leverage ratio.

So it really is better information than it is a change in the actual way, the methodology that we used in the calculation. And as I talked about in my comments, it kind of falls across a number of categories, including those items, and frankly, more cash.

Harry Curtis - Nomura Securities Intl: So, all systems go with respect to share repurchase then, over the next even three months?

Leeny Oberg: Yes.

Harry Curtis - Nomura Securities Intl: Okay. Very good, thank you.

Felicia Hendrix - Barclays Capital: Thanks for taking my question. So, not to push, because I know you've all worked very hard, but it does look like you are well on your way to achieving your synergy goals. So wondering if there is any chance on surpassing those on the cost side? And I know it's early, but can you give us any color of maybe some early wins you might be having on the revenue side?

Arne Sorenson: I think the $250 million that we've talked about for G&A savings is still your -- the right target, and certainly the target we are managing against. That is not a conservative external target which looks different from the target that we've got internally. And so I would continue to look at that.

To state the obvious, with eight days only of Starwood in Q3, I think it's difficult for you -- for us, let alone you, to conclude how much of that $250 million we've achieved so far. But we are getting underway. We are getting underway very quickly. And as you can tell from our preliminary comments, we are really trying to set up the organization as quickly as we possibly can. So that the change to people is behind us and so that people can be looking forward. And so we'll move at that.

I think, just to state the obvious, 2017 will be a bit messy because we'll have transaction and transition costs that we'll help you understand as each quarter is reported. They are a bit difficult really, honestly, for us to predict by quarter at this point in time. But we remain optimistic by the time that we get towards sort of 12 months from closing, the lion's share of that $250 million, at least from a run rate basis, should have been achieved.

We can't tell you sitting here today that we know for certain that every final dollar of that will be achieved by 12/31/17. I suspect there could be some areas where we are running duplicate systems or something else that creates some costs to slop into 2018, but we'll be very close. And to the extent we don't achieve the year-end, we'll, I think, get it fairly quickly in 2018.

I think in terms of synergies for the hotels, both topline and bottom-line, we talked obviously about the loyalty program. I think the early response from our customers about linking those programs and matching status is very comforting. And that is exactly the kind of response we want, and expect, and will hopefully drive larger share of wallet for us with an even larger loyalty community. And obviously that's what we are focused on.

And then on the cost side, we obviously talked about procurement. We talked about OTA commissions. But we are looking at essentially every relationship that the two companies have, whether they be about cost of systems that are proprietary to us or third-party contracts that we are trying to make sure we deliver using the economies of scale that we've got, and think that we can deliver top and bottom-line improvements for our hotel owners in both portfolios.

Felicia Hendrix - Barclays Capital: Great. And then when you think about your unit growth going forward, and you gave us some -- I guess Leeny gave us some guidance or one of you did at the beginning of your prepared remarks -- I'm just wondering, are you seeing an invigorated interest in the Starwood brands? And as you now market a consolidated portfolio to your owner and developer base, I'm just wondering could there be upside to your unit growth forecast?

Arne Sorenson: Well, the openings obviously are overwhelmingly driven by deals that we've already signed. Maybe even --

Felicia Hendrix - Barclays Capital: I guess I was talking more about your pipeline.

Arne Sorenson: Yes. Pipeline will be interesting. I think we are very optimistic that brands like Aloft and Element -- which are very interesting from a customer perspective, and I think have been something that the franchisee community, particularly in the United States, has looked at and been interested in -- we have already seen that there is a strong appetite to grow those brands.

I think Starwood saw that even before we closed the transaction with significant increase in the signings for those brands in the United States. And we'll focus on those, we'll continue to make sure that we refine them without changing the kind of customer idea that they've got. And we think we'll see growth of those brands accelerate quite significantly.

Felicia Hendrix - Barclays Capital: Great, helpful, thank you.

Patrick Scholes - SunTrust Robinson Humphrey: I'd like to dig in a little bit more into the fall-off of the group pace. Specifically, falling from 7 percent to 2 percent, what was it with the composition? Was it the occupancy or the rate or perhaps both that have really tailed off in there?

Arne Sorenson: Well, one thing we should specify is we are comparing apples to oranges here just a little bit. The 7 percent is Legacy-Marriott; and the 2 percent is the combined Company. And we probably should've helped you a little bit better with that, I suppose, in the release that we put out.

I think if you look at simply Legacy-Marriott, it's more like a decline from 7 percent to 4 percent. Now that's still a decline and it's still a decline of 3 points, so, let's not use those statistics in a way that suggests your question isn't still relevant.

I think the bulk of the impact is in volume. In other words, nights, not rate. And it's simply this relative caution about near-term commitments. And again, it would simply be repeating what we said a few moments ago, but that is really mostly a corporate story, mostly sort of near-term caution that does not seem to be impacting the kind of commitments they make longer-term.

Patrick Scholes - SunTrust Robinson Humphrey: Okay. So, Starwood came in with a sort of a weaker growth rate versus your legacy. And I may have missed it. Did you give out statistics on 2018 for group pace at this point?

Arne Sorenson: All we said was that the bookings in Q3 for all future periods were up about 8 percent or 9 percent compared to what we booked in Q3 of 2015 for all future periods, which is positive. The 2018 numbers are up high-single digits for -- very high-single digits. I don't think they are quite 10 percent, but I think they are very close.

And Laura will keep me honest here and make sure that we know which portfolio we are talking about.

Laura Paugh: Legacy-Marriott for 2018 is up about 9 percent.

Arne Sorenson: Legacy-Marriott.

Laura Paugh: Yes.

Patrick Scholes - SunTrust Robinson Humphrey: Okay, thank you. That's it.

Shaun Kelley - BofA Merrill Lynch: Congratulations on the deal close. So my first question is on the fee growth that you guys experienced and the outlook for the fourth quarter. So, on a pro forma basis, you know, I think the commentary was you are looking for 1 percent to 2 percent growth, which is probably a little lower than what we were looking for.

Leeny, I know you broke out a few items that were headwinds in that number. But I was wondering, could you give us a little bit more clarity or quantification on some of those and specifically the reversal on the incentive management fees?

Leeny Oberg: Yes, I think at this point, we wouldn't get into specific numbers, but I think you could see high-single millions in terms of year-over-year -- in terms of the delta, in terms of what kind of you are looking at across the board from the two companies having to suffer from everything from the Middle East to what was a change in FX and the impact of RevPAR going forward.

So I think it's overwhelmingly incentive fees. And base and franchise are going to look a lot more normal relative to the growth in units and the growth in RevPAR. There are a few contract changes here and there that could impact the difference between franchised and managed, per se, but overall, when you look at base and franchise, they are going to look very much in line with what goes on with RevPAR and unit growth. It's really incentive fees where you are going to see this combination of effects.

And the other thing -- again, year-over-year, when you kind of adjust and look for full-year, I think that is important to look at, because you've got some quarter-to-quarter variations that affect the -- when you look at the full-year 2016 to 2015 on a combined legacy basis, you'll get something that looks much more like the single -- mid-single digits, which you would expect overall from the portfolio, given the RevPAR and unit growth.

Shaun Kelley - BofA Merrill Lynch: Okay, perfect. That's helpful. And then maybe we can take that forward as we think about next year and probably again thinking about the overall but maybe the IMF in particular. As you think about the RevPAR outlook that you provided, and I know you don't want to get into giving specific guidance this early on, but just directionally, is it possible for IMFs to be positive next year in an environment where RevPAR is only growing kind of with the outlook that you provided, 0 to 2 percent, and we are starting to see house profit margins probably peaking or starting to erode a little bit?

Leeny Oberg: So a couple of comments. First of all, clearly next year, with the kind of RevPAR that we've outlined, we would be thrilled to end up with flat margins. We have done an incredible job with margins in the RevPAR environment that we've had this year. And perhaps, in some respects, you could argue that we've gotten margin that now we will be happy to keep in terms of the margin improvement.

So, I think on that standpoint, I wouldn't look to see higher IMFs as a result of any margin improvement with essentially what is a pretty low RevPAR environment. Now we would expect to have unit growth, and we expect to have unit growth internationally, which is going to obviously help our IMF, given the construct of our contracts there.

Where it is tough to predict is this issue of where. For example, when you look at the Middle East this particular quarter that we are looking at, in Q4, you clearly see the dramatic impact of lower RevPAR on our IMF as we go into Q4. So I think that's where we need to get into the details on our budgeting process to look at the trade-off between unit growth, internationally, as well as RevPAR as well as then the performance of specific markets and what happens to their IMFs. So, it's possible, but certainly too soon to tell at this point.

Laura Paugh: Shaun, you should also remember that for Marriott legacy in 2015, we earned about half of our incentive fees outside the U.S., but combined with Starwood now, we are probably at about two-thirds of our incentive fees come from outside the U.S.. So we are a more international company than we were in the past.

Shaun Kelley - BofA Merrill Lynch: Excellent. Thank you both.

Jeff Donnelly - Wells Fargo Securities: Just a first question for Leeny. I was just trying to get my arms around the prospect of any kind of significant investment you see in technology going forward. And now that you've had some time with Starwood systems, can you talk about where you are at with just integrating all the major technology systems? You know, reservations, accounting, and whatnot? So it's efficient for employees, but also from a consumer -- a seamless consumer experience, whether it's mobile apps or the ability to do digital key and whatnot?

Leeny Oberg: Sure. You've definitely outlined our next 18 months. We are heavily involved in every single one of the systems that you described. I think, kind of you can start at the easy place, which is thinking about the hotels and actually the way that they operate. And we are looking at putting them all onto the same back-office system that we have at the Marriott hotels. And that's a process that we'll be getting into absolutely as soon as we can.

As we look at the reservations and the loyalty platforms, clearly there is a massive amount of work to be done, and also, we need to take into consideration our relationships with our credit card and timeshare partners, and a lot of technology work in looking at what exactly it will take. So we can't give you a specific timeframe yet on the exact timing, but certainly moving in that direction.

And as far as the kind of the fundamental systems of everything from company payroll and the way the hotels work, we are moving. So that well into 2017, we will have everybody on the same system.

Jeff Donnelly - Wells Fargo Securities: That's useful. And maybe for Arne, there's been no shortage of ink spilled about the need for 30-plus brands. And I think that question probably comes up just because of the subtlety of differences in pricing and positioning, and maybe with the argument that every brand adds some degree of marginal cost. I guess in that regard, can you maybe talk about the incremental cost of operating another brand? And is it your longer-term plan maybe to provide more differentiation between brands so that maybe that's less of a focus?

Arne Sorenson: Yes, I mean, we've said a couple of things here that are sort of obvious. I mean, I think if we had not merged with Starwood, would we be trying to build 30 brands from scratch? I think the answer is probably not. At the same time, having done this deal, the 30 brands all exist. They all have substantial capital that has been invested in them, particularly by the hotel owners who have made deliberate bets about which flag they put on their hotels. And we don't have the power to, nor the desire to, try and convince them that those bets have not been good bets.

I think the other thing that's really important to recognize here is we -- the biggest expense from a brand perspective in theory is about marketing brands. And obviously that's the most expensive when each brand has to be marketed on its own. And in that context, you would want as much definition as you could have between brands, and it would still be expensive to go out and market each one alone.

I think in many respects, that's no longer our model, if it ever was. I think the principle model today is we go to market through our loyalty platform, through our dot-com site, through our app. And those things allow us to essentially market a portfolio, and offer through that portfolio an incredible range of choice to our customers, which drives actually conversion from looking to booking that much higher, and makes the economics of each brand better, not weaker.

And so you put all that together, and I think that's why we conclude that we are going to keep these brands and we're going to continue to grow them. I don't really think that there are material incremental costs to having a brand, given that that's the business model that we have.

Jeff Donnelly - Wells Fargo Securities: Okay, great. Thank you.

Ryan Meliker - Canaccord Genuity: Thanks for taking my question. I just wanted to follow-up a little bit about your outlook for 2017. You talked about corporate negotiated rates being up in the mid-single digits. Can you give us any color how those conversations are progressing with some of your biggest corporate clients? Do you expect volumes to tick up? How are they thinking about things? Obviously rate is a component, but you guys obviously want to try to lock in as much demand as possible as well.

Arne Sorenson: Yes. I mean, we said in the prepared remarks that we would increase, we thought, the volume of special corporate business that we brought in, and at the same time, we said for like-for-like accounts, we should see mid-single-digit growth. I can't tell you -- I'm not sure we know yet what the average rate for the larger portfolio of special corporate compared to last year's special corporate volume will look like.

In other words, are the new clients we are adding at the same rates, are they at higher rates because they are smaller? Are they in different markets? All those things will have to be worked out.

We are still a bit early. We have generally made proposals to every one of our significant special corporate customers. And often, we've heard back from them. So we've got some to and fro. But by and large, those negotiations have not been completed. And we think it's based on the early data we've got that we talk about the mid-single-digit increase on like-for-like accounts.

Ryan Meliker - Canaccord Genuity: No, that's helpful. And then I guess -- and obviously I'm not asking you to negotiate on the air, I'm just curious -- as you guys are reaching out to some of your corporate clients, are you at a stage with RevPAR growth kind of in this low single-digit range to be willing to sacrifice rate for some type of volume guarantee?

Arne Sorenson: Well, let me answer it this way maybe, which I think can give you some comfort. While RevPAR growth rates have declined a bit obviously, the occupancies of our hotels remain very high, particularly on nights and in markets where business travel is significant. So, if you look not at full week occupancy but you look at Monday, Tuesday, Wednesday, Thursday nights, we are running chockablock. And that means even in a 0 percent to 2 percent RevPAR environment, we are not without some position in discussions with our customers to make sure that we are being fairly compensated for that occupancy, which is in relatively short supply.

Ryan Meliker - Canaccord Genuity: Okay, that's really helpful. Thank you. And then just kind of one last thing that's a little bit bigger picture. Anything over the past 10 months that you learned associated with the Starwood transaction that you think will help you guys going forward that you didn't know going in?

Arne Sorenson: (laughter) The -- there is -- I'm sure we could put down a long, long list of things. But I -- let's keep it maybe a little bit in general. And maybe we could even back up a little bit. When we were in the summertime with significant news about whether we'd get approval and how long it was taking, one of the New York tabloids ran a story suggesting that we had buyer's remorse and maybe didn't really want to close the deal.

That story had zero factual support. Absolutely zero factual support. We never lost any enthusiasm for completing this transaction. And now six weeks from close, seven weeks from close, I guess this Friday, we are enthusiastic as ever. And I think when you look at the report that we issued last night we've been talking about this morning, what we see is a combined company with leverage levels already back to the levels that we target long-term, with an enormous ability to produce cash. And we'll be back in the market with that cash buying back our stock.

But we also see, when we look at the third-quarter EPS growth results -- and that's Legacy-Marriott, because that's the only sort of apples to apples comparison we can do -- but you are in a high-teens percentage growth year-over-year. And we think the model is working extraordinarily well.

We think the strength of the Starwood brands and the Starwood loyalty program have continued to impress us. And we should see that that development engine and the share of wallet we are enjoying from our customers should continue to expand. So we're -- we are very pumped up and eager to go.

Ryan Meliker - Canaccord Genuity: All right. Thanks a lot for the color, Arne.

Thomas Allen - Morgan Stanley: I'm just following up on those previous comments about buyback. Can you just set some level of kind of market expectations for the level of buybacks in the fourth quarter? Thanks.

Leeny Oberg: Oh, sure. I would -- something in the couple-hundred-million-dollars ballpark is not an unreasonable area of expectation.

Thomas Allen - Morgan Stanley: Okay, helpful. Thank you. Then just a bigger picture question. You know, you still have -- you have the Starwood assets you are looking to sell. Can you just talk about your view on the current state of that transaction market? Thanks.

Leeny Oberg: Sure. As Arne talked about in his comments, clearly there is some -- just in general, overall in the transaction market, there is some concern about the slow pace of economic growth. However, I think at the end of the day, what we see is that for brands that are very strong and in markets where there is demonstrated performance, that deals can absolutely continue to be done.

And so from that perspective, as I described, we've got, call it, 70 percent of the assets in the U.S., and I would expect those to be sold relatively sooner than necessarily the ones in Latin America. And that for, in general for those hotels, that they are strong assets, and we are already engaged in discussions on a number of them and seeing good strong interest.

Thomas Allen - Morgan Stanley: Great, thank you.

David Katz - Telsey Advisory Group: Congratulations on your closing. And I -- as you know, I'm an avid reader of the tabloids. (laughter) I did want to just follow up on Harry's issue from earlier. As I look at what the debt balances are -- and I know, Leeny, you'd made some comments about what the debt balances were that you assumed at the closing.

And then if I just really from a high-level, look at the debt balances and cash that you give us relative to the leverage comment, I will admit I'm finding a bit of a disconnect. How much debt did Starwood pay down, I suppose is really the question? How much debt did you actually assume from them? And I would imagine all of this will be ironed out when a Q gets filed?

Leeny Oberg: Right. So you will see the Q tomorrow and it will be a little bit easier to take you through it in the detail. But just in broad terms, they did pay down roughly $800 million in debt prior to the transaction closing. So, when you look at what we described, we've got basically the $8.8 million of debt -- $8.8 billion of debt that we've got at the end of Q3. And we've also got the $1.1 billion of cash. Okay?

So kind of in and of itself, you've got the scenario that we are in a better situation relative to the debt than we had expected prior. I think the other thing I would point out is that earlier, when we were looking, we had less comfort about knowing the details around their cash globally.

And as a result of doing the entity restructuring that I described earlier, we are comfortable that we are going to be able to use all of the debt balance -- all of the cash balances that we don't need to run our business to repay debt and use for general corporate purposes over the near-term. And I think that probably, when you compare it to where we were a number of months ago, we were, at the margin, a bit more cautious about knowing the details about what we would be able to do from a cash perspective.

David Katz - Telsey Advisory Group: Right. Is there some meaningful adjustment in there for bank purposes with respect to the leverage? In other words, if Starwood has a capital lease, is that something that gets added back or deducted from your debt balance? Or is there any meaningful chunk in there we should consider?

Leeny Oberg: Right. There's kind of a classic calculation where you take an NPV of the lease payments. And that again, we've got more refined information on knowing what their required lease payments are over the next number of years, as compared to what we knew six months ago. And there again, I think we benefited a bit from being more conservative in our estimation about the length, the size, the nature of some of those leases where we got some benefit probably not -- certainly not a whole tenth of, you know, 10 basis points, but certainly some benefit there.

I think the three biggest ones, as we've described before, the three biggest changes to the 40 basis point improvement was, as we described, just more cash overall, being able to feel comfortable about our access to that cash; the level of EBITDAR, which is refined for both their higher owned/lease performance; and frankly, the combination of the two companies' combined performance on the latest trailing 12 months. And then the third, that you were able to look at the actual amounts of cash that you have on-hand.

David Katz - Telsey Advisory Group: Got it. Okay. Thanks for your answers. I appreciate it. Good luck.

Bill Crow - Raymond James & Associates, Inc.: Congratulations on the transaction. Arne, with the deal done, but obviously you've got your hands full on the integration, but are you able to look at other industry issues like short-term cancellations, and start to dedicate more resources? Or is that just too risky to the new combined loyalty program?

Arne Sorenson: Well, we talked about this just a little bit in response to one of the other questions that came in. And I don't want to go further than we're prepared to go, but I think the general point here is that the transaction was attractive to us, compelling to us in significant part because of what we think we can do with the loyalty programs.

And those loyalty programs, managed well, should allow us to drive that much more of our business directly from our most loyal members, which is the cheapest business for us to book because it comes and books to us directly. And, too, you don't do that just by being nice and good-looking. You've got to do that by delivering real value to those customers, because they are not going to be loyal to us unless it's in their interest to be loyal.

And so we are working through those things. They include significant work around systems and the like that we use to have our relationship with them, but also how do we continue to make sure we are delivering value to them? And so, free Wi-Fi and member rates, and mobile check-in and keyless entry, and points, these are already things which are really available to our loyalty members, but not to other customers.

And we'll continue to make sure that we are managing that in a way that, hopefully, will give us good protection against whatever sort of, either threatening intermediaries, or newfangled ideas that come out, that are seeking to upend that relationship.

Bill Crow - Raymond James & Associates, Inc.: All right. And the follow-up, Arne, as you look at your franchise applications and you kind of use all your years in the industry as a guide, what do you think -- what year do you think U.S. supply growth peaks the cycle?

Arne Sorenson: Oh, that's a good question. I haven't thought precisely about that question. Obviously, a big part of it depends on what happens to GDP growth. So if GDP bumps along at 1 percent-ish in the U.S. for the next year or two, I suspect we'll see more hotels open than are signed to the pipeline for the industry. Obviously the trick here is for a company like ours to do better than the industry does and we'll continue to be focused on that.

But I think in that kind of operating environment, we'll probably see most of the hotels that are in the pipeline in the industry open ultimately, but the pipeline shrink in its entirety, which I would guess would mean that 2018 maybe is peak in the U.S. Obviously, if you've got a stronger GDP environment than that, more projects will be started. And at some point, you'll hit a place where the total pipeline sort of stays at the same kind of level or conceivably could grow, in which case peak supply growth could be later than that.

Bill Crow - Raymond James & Associates, Inc.: All right, thank you. That's it.

Arne Sorenson: Take that for what it is, which is an off-the-cuff answer.

Rich Hightower - Evercore ISI: Just a quick follow-up on the loyalty program question, as a lot of my questions have already been answered. Now that you've gotten some time to take a look at some of the details within Starwood's loyalty program and unpack some of the differences in how they see the world and see customer value, and all those sorts of things, where -- if you had to pick two or three places in that context, where do you see the most opportunity to maximize the economics of the combined program eventually?

Arne Sorenson: Yes, and I'm not sure if this is exactly what you are getting at, but one obvious place where we think we have upside in terms of share of wallet -- let's use a loyal SPG member, maybe an elite member, who far too often in the past would find themselves in markets in which Starwood had no product. Think about particularly markets in which select-service hotels are much more prominent than full-service hotels.

Starwood had obviously some Four Points, a few Alofts and precious few Elements, but you compare the number of those three brands that Starwood had across the United States with what Marriott had in Courtyard and SpringHill Suites and Residence Inn and Fairfield and the like, and there are thousands more places for those customers to stay with us, now broadly defined as the new Marriott. And as a consequence, we should drive more share.

And with that greater distribution, the loyalty program itself becomes more powerful.

Obviously one of the things that customers look for is, all right, what are the benefits I get in terms of suite upgrades or bonus points or access to lounges or other things? But also, can I stay within that network regularly when I travel, so that I can earn the kind of status and earn the number of points that I need in order to really get the free vacations or to get the other things that I want to get with those points?

And so, the breadth of distribution by itself is going to be hugely powerful in driving this. And then we've got to make sure that we are again continuing to deliver the right kind of value to the customers.

Rich Hightower - Evercore ISI: Right. That's very helpful. I mean, is there anything in terms of the sort of the representative level of generosity of the rewards, any of the program that you think is an opportunity or a deficiency versus prior or anything like that?

Arne Sorenson: Oh, there are dozens of differences between the programs. And it's -- it would be dangerous to focus on any one. But I'll give you one little -- one other little peek under the hood. When we announced the deal in November of 2015, because Marriott was the acquirer, SPG members particularly were a bit nervous about, okay, what is Marriott going to do to the benefits that we like?

And we, of course, tried to be reassuring in the words that we used. In a cynical era, I think people are not inclined necessarily to believe everything that's said. And so one of the things we did was with the Marriott Rewards program in second quarter, if I remember right, we started doing suite upgrades and late checkout. And that was actually a powerful communication to the SPG members that, oh, actually Marriott is paying attention to what Starwood has provided for some period of time.

And that's a reassuring sign. But we will look at suite upgrades and redemption rules and all these other aspects over the course of the next few years, and try and do right by our customers and obviously do right by the program

Rich Hightower - Evercore ISI: All right. Thank you.

Chad Beynon - Macquarie Research Equities: Just one from me just regarding the third-quarter result. So in the North American limited-service side of things, the performance for both Legacy-Marriott and Legacy-Starwood -- and actually the industry, from what we've seen from STR -- was a little weaker than expected, yet we continue to hear that the corporate leisure customer is strong. So could you just kind of help us flush out some of the underperformance in the quarter?

Arne Sorenson: Yes, I think the -- it's interesting -- if you look at our schedules, you see a bit of a difference between the managed portfolio and the franchise portfolio, too. But if you look at the portfolio as a whole, the full-service hotels get disproportionate benefit from group business, and group business is a stronger than corporate transient, particularly today.

The managed select-service portfolio also skews -- not as much as the full-service hotels, but skews a little bit more towards group than the franchised select-service portfolio does. And so that's helpful, too.

And I think the third thing is around geographic distribution. So when you look at select-service, when you look at the franchise portfolio, when you look at a lot of the industry data, select-service hotels can skew more towards oil and gas markets. Think about markets that nobody's ever heard of before a couple of years ago like Williston, North Dakota and environs where you've got all this oil work that's happening up there, select-service hotels exploded onto the scene -- there's not a single full-service hotel in the whole area, basically.

And, it's maybe a little less dramatic in markets like Houston. But you look across Texas, you look across many of these markets, and you will see that those hotels are competing in, on average, tougher markets, again without the benefit of group. And that would be the bulk of the explanation.

Chad Beynon - Macquarie Research Equities: Okay, thanks, Arne.

David Beckel - Bernstein Research: Hey, thanks for the question. Good morning. I had a quick question about Starwood's pipeline, actually. I know there is a like-for-like comparison issue here, but it does appear that the pipeline may have stalled out a bit this quarter. I was wondering if there's anything idiosyncratic at play there worth pointing out?

Leeny Oberg: No, there's really not. So a couple of comments overall. Always looking quarter to quarter can make for some interesting comparisons because a lot can go on one to the other. So I think you will find, in general, year-over-year, you will find some really strong growth across both portfolios, and perhaps in some respects, a better measure of how they are doing.

At the same time, clearly when we look at it, we are trying to make sure that we are taking into consideration exactly what is going on with either delayed deals or deals that are falling off. And so from that standpoint, we've kind of trued it up. I think you'll find it's such a small difference when you look at kind of how the two companies put their pipelines together that it's not anything particularly meaningful.

We are excited about the kind of the level of interest. We've done a bunch of deals, even since we've closed on the transaction, and look forward to continuing to watch it grow.

David Beckel - Bernstein Research: That's really helpful, thanks. And just a quick follow-up on net room growth expectations for next year. I know you've mentioned in the past that you do expect to prune -- I don't know if that's the right word -- certain Sheraton properties that might have been underperforming in the past. Is that reflected within your forward room guidance? Thanks.

Arne Sorenson: Our best guess is 6 percent net growth next year. And that's net of the best information we have on deletions as well.

David Beckel - Bernstein Research: Perfect, thank you.

Jared Shojaian - Wolfe Research: Thanks for taking my question. Can you help me think about the P&L impact that is lost from selling $1.5 billion in assets? So I guess this year, I think you are doing around $620 million of gross income on the owned/leased line. What does that look like after $1.5 billion in asset sales?

Leeny Oberg: Are you talking on the revenue line or on the owned/leased net line?

Jared Shojaian - Wolfe Research: The owned/leased net line.

Leeny Oberg: Okay. You know at this point, we are really not in a position to kind of get super detailed. I think the easiest way to describe it is what we talked about from an EBITDA perspective, which is the $180 million to $190 million of EBITDA associated with Starwood's owned hotels.

You know we also did talk about the fact that our depreciation and amortization estimates associated with the purchase of Starwood have declined relative to the earlier description. And part of that -- I'd say roughly half of that was associated with moving several of those hotels into the assets held for sale category, which is again going to impact D&A, but is not going to impact the owned hotels net.

So, specific numbers we'll be able to talk more about in February. I think for now, the EBITDA is probably the easier way to think about it. Obviously, when we sell these hotels, we'll end up with a great stream of management fees in managing the hotels. So it's one thing to keep in mind is that, although there is EBITDA that goes to the buyer of these assets, we're going to continue to have a great stream of earnings from them.

Arne Sorenson: Just let me add one thing to this. It will vary a little bit by market around the world. Obviously the U.S. assets are easiest to predict, but we've got some owned assets in other markets around the world.

On average, though, you would expect that the sales prices we receive should be at least at the EBITDA level, if not higher, that the company is trading at. And so the transaction should be accretive from an EBITDA perspective. And when you look at it from an earnings perspective, after depreciation associated with owned hotels, they should be significantly accretive from an earnings perspective. Now again, that's on average. We are not saying necessarily that in a higher cap rate market, where the risk profile is actually quite different, that we will necessarily always get proceeds which are higher than our EBITDA multiple. But I think generally across the average, we should see that this is accretive to the P&L and the balance sheet of the company.

Jared Shojaian - Wolfe Research: Okay, thank you. And then, Arne, I just want to go back to your loyalty comments. Because Hyatt said last week that they have effectively converted 30,000 SPG members over to their loyalty program. And I know that's a small number in the grand scheme of things, but have you seen any tangible evidence of SPG members leaving presumably out of fear of just their points being diluted?

Arne Sorenson: I don't think that's what they said. I think what they said last week was that they had offered to match elite status to 30,000 SPG or SPG and Marriott Rewards members. That doesn't mean they've converted them to be loyal to that company. Those folks are undoubtedly still members of our program and we're not giving up on them.

Jared Shojaian - Wolfe Research: Okay, thank you.

Joe Greff - JPMorgan: Hey, guys, good morning.

Arne Sorenson: Hey, Joe. What did we do to you to get you last in line?

Joe Greff - JPMorgan: I don't know. I was going to ask you the same question. I could have voted four times. (laughter) Just with regard to your comments on 2017 with the 6 percent net room growth, given your comments about certain delays today -- and I think you also mentioned it anecdotally the last quarter -- is that rooms growth disproportionately weighted to the second half of the year?

And then, when we look at sort of your totality of comments today and think about next year, and we look at fee growth, are we looking at fee growth that may be the best case scenario or the most optimistic scenario is that fee growth approximates net unit growth? Or do you think we can get fee growth in excess of net rooms growth?

Arne Sorenson: Well, okay, so I think on both of those questions we should start by warning you we don't have a budget for next year. So we do have, in this headquarters building someplace I'm sure, a detailed schedule of when we think hotels are going to open. But we're not rolling that out necessarily in a way that's very digestible by quarter.

Having said that, I would think to the earlier question about when supply growth will peak. I suspect we are continuing to see, on average, that we are opening more next year than this year, and we're probably opening more in 2018 than in 2017, which would suggest that there will be some backend skewing to next year. I don't think it will be profound, though.

Obviously, we've opened a lot of hotels this year. We've missed a little bit this year and those are slipping into 2017, but they will be in early 2017. And so I think the year as a whole should be fairly robust in terms of its openings. But again, I'd suspect fourth quarter will have more than the first quarter did, simply because we continue to ramp.

On fee growth, obviously the two biggest inputs to the year-over-year fee growth is unit growth and RevPAR. And with 6 percent unit growth and 0 percent to 2 percent RevPAR growth, both can drive an increase in the topline, although it's obvious that the rooms growth will drive more topline growth than the RevPAR growth unless we are wildly conservative in that 0 percent to 2 percent number.

The next piece of that is what happens with incentive fees? And I think there you end up in a 0 percent to 2 percent market with the real need to say, okay, what's happening in the high incentive fee markets for the company, like New York, like Washington, like London and other markets around the world? And until we do the budgets, that's going to be a hard thing to give you much guidance on.

Joe Greff - JPMorgan: Thank you.

Arne Sorenson: You bet. Okay, I think we have exhausted all of you, but we thank you very much for your keen attention this morning. We wish you all again a happy election day. Get out and vote, and then get on the road and come stay with us. Thank you.

--End of Remarks--

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; the pace of the economy; 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 successfully integrate Starwood, manage our expanded operations, 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 8, 2016. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.