



**Marriott International, Inc.  
First Quarter 2018  
Earnings Conference Call Transcript<sup>1</sup>  
May 9, 2018**

**Operator:** Welcome to the Marriott International first quarter 2018 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 first quarter 2018 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.

First, 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, May 9, 2018, and will not be updated as actual events unfold.

This quarter, we have provided a set of slides to assist with today's discussion. You can find them on our website at [www.marriott.com/investor](http://www.marriott.com/investor) or in our 8-K filing. In our discussion today, we will talk about results excluding merger-related costs, reimbursed revenues and related expenses, a net adjustment to the tax charge related to the U.S. Tax Cuts and Jobs Act of 2017, and an adjustment to the Avendra gain. GAAP results appear on page A-1 of the earnings release, but our remarks today will largely refer to the adjusted results that appear on the non-GAAP reconciliation pages. Of course, you can find our earnings release and reconciliations of all non-GAAP financial measures referred to in our remarks also on our web site. So, let's get started.

We were very pleased with our results in the first quarter. Worldwide systemwide constant dollar RevPAR increased 3.6 percent, beating the top end of our guidance by 60 basis points; gross fee revenue rose 11 percent; and adjusted earnings per share increased 40 percent.

Let's talk about the regions. Systemwide constant dollar RevPAR in our Asia Pacific region increased 10 percent which was much stronger than the mid-single digit growth we expected. Hotels in Greater China saw an increase in RevPAR of nearly 12 percent due to better than expected corporate and leisure demand. Travel during the Chinese New Year exceeded our expectations and outbound demand from Greater China helped drive double digit RevPAR growth in Thailand and Singapore. Indonesia RevPAR increased 5 percent as many volcano-related travel advisories were lifted.

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<sup>1</sup> Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.

For our comparable hotels, RevPAR in India increased 6 percent in the first quarter on strong corporate and leisure demand. Just last month, I attended the grand opening of our 100<sup>th</sup> hotel in India, the Sheraton Grand Bengaluru Whitefield Hotel & Convention Center. The mood in India is very upbeat. The Asian Development Bank recently forecasted that in 2018, India will have the fastest growing economy in Asia following recent financial reforms. With this rapid near-term growth and rising middle class, we are bullish about India. With over 20,000 open rooms, India is already our 4<sup>th</sup> largest market in the world, just behind the U.S., China, and Canada, and has more than 11,000 rooms in our development pipeline.

In the Middle East and Africa, systemwide constant dollar RevPAR rose over 3 percent year-over-year compared to flat results expected for the quarter. RevPAR in Egypt rose 30 percent on easy comparisons, while the UAE saw greater leisure demand from China and India, helped by the opening of the Louvre museum in Abu Dhabi. South Africa's RevPAR declined 2 percent, due in part to the water crisis in Cape Town.

In Europe, strong economic growth took systemwide constant dollar RevPAR up nearly 6 percent in the quarter year-over-year, consistent with the mid-single digit growth assumed in our first quarter guidance. We saw mid-teens RevPAR growth in Eastern Europe on strong corporate and leisure demand, while RevPAR in Turkey and France continue to rebound. London RevPAR was flat year-over-year, reflecting weak demand from the financial services industry, likely Brexit-related.

In the Caribbean and Latin America region, RevPAR increased nearly 9 percent in the quarter which was stronger than the mid-single digit growth included in our guidance. RevPAR at our comparable Caribbean hotels increased over 20 percent, benefiting from lower industry supply as many hotels remain out of service following last year's hurricanes. Mexico RevPAR declined 5 percent following the steep devaluation of the peso and continued travel warnings for some markets. RevPAR in our Central and South American markets increased at a high single digit rate on average with significant and surprising demand strength in Argentina, Brazil and Costa Rica.

Let's turn to North America. As you may recall last quarter, we were hopeful we would see a pickup in North America economic growth. Our hopes have been realized. It's time to take the numbers up a bit.

Recall that in 2017, our North American RevPAR increased 2.1 percent. If adjusted for calendar and event anomalies, such as the Inauguration, shifting holidays, and the 2017 hurricanes, we estimated 2017 RevPAR would have increased 1.7 percent. In the first quarter of 2018, North American RevPAR rose 2 percent, at the high end of our guidance. Excluding the impact of the shifting Easter holiday, last year's Presidential inauguration, and the lingering impact of the hurricanes, we estimate RevPAR would have been up 2.7 percent, a full point higher than 2017's adjusted numbers. This acceleration is encouraging.

Transient RevPAR increased roughly 2.5 percent in the first quarter, helped by reduced corporate discounting in the Legacy-Starwood portfolio, better leisure demand, improved international

arrivals, and overall strengthening corporate demand, particularly in the oil and gas industry. Special corporate room rates at Legacy-Marriott hotels increased nearly 3 percent in the quarter.

Speaking of oil, we are encouraged by recent demand trends in energy markets. You may recall that it was the energy business where we first saw weaker RevPAR trends in the fourth quarter of 2015. More recently, Houston's RevPAR was significantly impacted by Hurricane Harvey in the 2017 fourth quarter and the difficult year-over-year Super Bowl comparison in the 2018 first quarter. Yet, underlying oil-gas industry demand has been improving. We looked at the RevPAR performance of our hotels in 40 energy submarkets in the U.S.... in places such as Oklahoma, North Dakota and Louisiana, to name a few. Excluding Houston, we note that RevPAR for our hotels in these U.S. markets rose 6 percent in the fourth quarter of 2017 and 8 percent in the first quarter of 2018. Canadian energy markets were even stronger.

We are also encouraged by recent group trends. We expected lower group business as we started the quarter due to the shift in the Easter holiday. Actual group RevPAR was stronger than expected, ending flat year-over-year for the first quarter. Outperformance was largely due to better than expected attendance at group meetings and stronger group business at our limited-service hotels. Food and beverage trends are improving, too. Food and beverage revenue per group roomnight rose nearly 6 percent in the first quarter.

RevPAR at our luxury hotels in North America increased 4.3 percent in the first quarter. Luxury hotels in Miami benefited from Florida and Caribbean hotels still out of service from the 2017 hurricanes, while RevPAR at our luxury hotels in Hawaii benefitted from renovations and greater airlift from the U.S. mainland and Japan. RevPAR growth at Ritz-Carlton and St. Regis was stronger than expected.

RevPAR at our North American Upper Upscale hotels increased 1.0 percent as the shifting holiday constrained group demand at large full-service hotels. We are encouraged that group revenue booking pace for our luxury and upper upscale hotels is up more than 4 percent for the second quarter and up 1 to 2 percent for the second half of 2018, compared to prior year periods.

RevPAR at our North American limited-service hotels increased 2.5 percent in the quarter, compared to the year ago quarter, despite a mid-single digit percentage increase in industry room supply in this tier. Limited-service hotels saw strong demand from the oil and gas industry, continued hurricane recovery demand, and both the Super Bowl in Minneapolis and the playoffs in Philadelphia. Group revenue at our limited-service hotels rose 4 percent.

Our economic outlook has improved. At the same time, the labor market is tight, and wages are rising in many markets. This is pressuring hotel operating margins and lengthening new hotel construction timelines, particularly for non-prototype and urban hotels in North America and Europe. Leeny will speak in a few minutes about our terrific hotel operating margin performance in the face of these trends.

We continue to make great progress in our integration of Starwood. Thus far in 2018, we have combined financial reporting systems, integrated our North American sales organization, and recycled approximately \$170 million in capital from asset sales and loan repayments. By August, we expect guests will be able to see and book all of our inventory on each of our Marriott and Starwood websites and apps and enjoy our unified loyalty programs. New co-branded credit cards from Chase and Amex should enrich guest loyalty even further. We look forward to rolling our hotels onto a single reservation system in stages, with the first group of hotels converting in the fall of 2018. And finally, we expect owners will continue to see significant cost savings as the integration continues.

But innovation is as important to us as integration.

Our Moments platform continues to grow and enrich our loyalty programs. Currently, the platform includes more than 110,000 experiences in 1,000 destinations, ranging from destination tours and day trips, like shark-cage diving in South Africa, to once-in-a-lifetime events, like sipping champagne trackside at next month's Belmont Stakes.

Last summer, we formed a new joint venture with Alibaba to improve service and sales for Chinese guests. Just last month, the JV launched our redesigned storefront on Alibaba's travel site, Fliggy. It now features our global inventory of hotels with a localized, mobile-enhanced, and user-friendly layout. During 2018, we are rolling out Alipay post-post-pay, an innovative hotel payment service, to 1,000 hotels worldwide. Alipay post-post-pay enables qualified Fliggy users to enjoy a comprehensive wallet-free experience during their stay.

We entered into an agreement to manage the first-ever Ritz-Carlton luxury yacht, bringing Ritz-Carlton service and our asset light business model to the luxury cruise business. The first Ritz-Carlton yacht, with 149 luxury suites, is scheduled to launch in 2020.

Last month, we announced that we are testing home-sharing in London with approximately 200 Tribute Portfolio Homes. While only a test, we are integrating our home-sharing offerings into our loyalty programs; curating for design, functionality, location and safety; and providing a commitment to service and quality that is not typical in this space.

Behind the scenes, we recently launched a new customer recognition platform which will allow Marriott associates globally, both on- and off-property, to deliver better service. Integrated with our mobile app and chat functions, our associates will be able to access guest portfolios, preferences, and history to ensure every guest, anywhere in the world, can receive truly personalized service. This is another use of technology to drive guest satisfaction.

House profit margins declined 10 basis points for our North American upper-upscale hotels in the first quarter in the face of modest RevPAR growth and higher operating expenses, particularly labor costs. This kind of margin pressure caused us to reduce commission rates for most group intermediaries in North America from 10 percent to 7 percent for bookings made on or after April 1 of this year. This change will not have a material impact on Marriott International's results. But

the commission change should make a meaningful difference to hotel owners, particularly those where group business is a significant share of their overall occupancy. The change in commission rates triggered a considerable number of new group bookings in the first quarter, largely for meetings taking place in 2020 and beyond.

On the development front, we opened nearly 15,000 rooms worldwide in the first quarter and our pipeline at quarter end approached 465,000 rooms. We signed just under 20,000 new rooms in the quarter, 10 percent more than in the first quarter of 2017. According to STR, we have the largest pipeline of guest rooms under development in the world. Let's look at a few of the details.

Our development pipeline skews toward faster-growing international markets. While one-third of our open rooms are in international markets, over half of the rooms in our pipeline are located outside North America. And, of our international pipeline, nearly 60 percent of the rooms are in the Asia Pacific region.

While we already have the largest luxury and upper upscale portfolio in the world, our strong pipeline should extend that lead even further. In fact, the number of our luxury and upper upscale pipeline rooms exceed that of our next three largest global competitors combined. Full-service hotels drive significant fees per room and enhance the value of a loyalty program which is strengthened by the aspirational destinations it offers.

Given our scale, we are excited to think about what we can accomplish once integration is complete. Today, as a much larger company, we are enhancing an already efficient cost structure and providing greater resources to drive high-value demand.

Yet even with these exciting changes, our core strategy is unchanged. We remain a manager and franchisor of the leading lodging brands in the world; we continue to work to make our brands even stronger; we embrace change, perhaps now more than ever; and we pride ourselves on our corporate culture, a culture of service to others. Marriott is a company with a more than 90-year history of creating value for its shareholders and we are committed to continuing to do so.

Before turning the microphone over to Leeny let me thank Marriott's associates around the world. They are shouldering the burden of integrating Marriott and Starwood even as they deliver excellent results for our business as usual. Their work inspires me. Thanks for all you do.

Now for some more thoughts about first quarter performance and our outlook, let me turn things over to Leeny.

**Leeny Oberg:** Thank you, Arne. For the first quarter of 2018, adjusted diluted earnings per share totaled \$1.34 compared to \$0.96 in the year ago quarter. Both first quarter 2018 and first quarter 2017 reflect the new revenue recognition accounting standard. We expect to have the remaining 2017 quarters and the 2017 full year income statement reflecting the new rules available to you later this quarter.

In the first quarter, gross fee revenues totaled \$845 million, an 11 percent increase year-over-year, largely from unit growth, RevPAR gains, and higher incentive and branding fees. Credit card fees alone totaled \$86 million, up 58 percent while other non-property fees, including application and relicensing fees, timeshare fees, and residential branding fees, increased 6 percent to \$38 million. With a weaker U.S. dollar, first quarter fee revenue also benefitted from a nearly \$8 million favorable impact from foreign exchange, net of hedges.

Worldwide house profit margins for company-operated hotels improved 70 basis points on a 4.0 percent increase in managed hotel RevPAR. In North America, margins declined slightly on a 1.4 percent increase in company-operated hotel RevPAR. Despite the modest RevPAR growth and significant wage growth, we were able to hold onto our North America house profit margin due to procurement savings, productivity improvements, and the roll-out of shared services to more hotels.

We estimate efficiency improvements and synergies contributed an average of 50 basis points to worldwide property-level margins in 2017 and our goal is to add another 50 basis points apart from the impact of RevPAR growth on average in 2018. Beginning in the third quarter, we expect to standardize loyalty charge-out rates by chain scale, with most brands benefiting from even lower charge-out rates.

Owned, leased, and other revenue, net of expenses, totaled \$70 million in the first quarter, a 3 percent decline from the prior year. The sale of 4 properties in 2017 and early 2018 reduced results in the quarter by \$22 million year-over-year, while termination fees increased results by \$21 million.

General and administrative expenses increased by \$35 million in the first quarter due to the additional profit-sharing match for associates for 2018. Last quarter, we announced our plan to invest roughly \$140 million during 2018 in our most important asset, our people, with about \$70 million of the cost funded by Marriott and the remainder funded by a portion of the Avendra proceeds. We are largely doing this by increasing our retirement savings match of associate contributions by up to \$1,000 for the first \$200 invested by eligible associates in the U.S. We also intend to invest in other associate support programs during the year. Of the \$70 million of expected Marriott cost for this investment, \$35 million was reflected in our G&A expenses in the first quarter. Given the 5 to 1 match feature for the first \$200 invested, we expect the expenses associated with this plan to be front-end loaded in the first half of 2018. We estimate our second quarter G&A will include \$25 million for this investment with the remaining \$10 million expense to be reflected in G&A in the second half of the year.

Unfavorable foreign exchange also increased G&A expense by \$6 million but was offset by synergy savings.

First quarter gains largely reflect \$53 million associated with the sale of the Buenos Aires Sheraton and Park Tower properties.

First quarter adjusted EBITDA rose 8 percent to \$770 million and reflected a roughly \$20 million negative impact from sold hotels.

Looking ahead, we expect worldwide constant dollar systemwide RevPAR will increase 3 to 4 percent in both second quarter and the full year. In the Asia Pacific region, we expect second quarter and full year RevPAR will increase at a high single digit rate reflecting continued strength in corporate and leisure demand. The Caribbean and Latin America region had a very strong first quarter, but RevPAR growth should slow a bit as many hurricane-damaged hotels in the Caribbean reopen during the year creating tougher comparisons. In Europe, we expect RevPAR will continue to grow at a mid-single digit rate in both the second quarter and the full year 2018. For the Middle East & Africa region, the timing of Ramadan should reduce RevPAR in the second quarter with offsetting stronger results expected in the third quarter. For the full year, the region's RevPAR is likely to be flat. All in all, we believe our international hotels could increase RevPAR by 5 to 6 percent for both the second quarter and the full year.

For North America, we expect RevPAR will grow 3 to 4 percent in the second quarter as group business benefits from the timing of Easter. For the full year, we expect RevPAR growth of 2 to 3 percent. This outlook is more bullish than on our last call, reflecting the stronger demand trends Arne discussed. We continue to expect 5 1/2 to 6 percent net worldwide rooms growth for the full year, disproportionately skewed toward international markets.

Slide 11 shows our guidance for the second quarter. Given our worldwide RevPAR and unit growth assumptions, we expect gross fee revenue for the second quarter will total \$935 to \$945 million, an 11 percent increase over the prior year. Our fee revenue estimate assumes \$90 to \$95 million in credit card branding fees in the second quarter and roughly \$10 million in favorable foreign exchange impact.

We expect owned, leased and other revenue, net of direct expenses, will total roughly \$80 million in the second quarter. In the 2017 second quarter, we earned \$14 million from assets that have since been sold. Our guidance assumes no further asset sales beyond those that have been completed.

G&A should total roughly \$250 million in the second quarter reflecting the roughly \$25 million expense for our additional profit-sharing contribution.

These assumptions yield \$1.34 to \$1.36 diluted earnings per share for the second quarter and adjusted EBITDA of \$880 to \$890 million, 7 to 9 percent over adjusted EBITDA for the second quarter 2017. We estimate our second quarter adjusted EBITDA reflects an \$11 million negative impact from sold hotels.

For the full year 2018, we believe gross fee revenue could increase 11 percent. This is a meaningful increase over our last guidance reflecting stronger RevPAR and margin growth and about \$25 million of favorable foreign exchange impact. We believe incentive fees will increase at a roughly 10 percent rate, which is faster than we previously modeled, largely due to the stronger RevPAR

and margin growth in the Asia Pacific region. We continue to expect our credit card branding fees will total \$360 to \$380 million in 2018.

Owned, leased, and other revenue, net of direct expense, should total roughly \$300 million for the year, modestly higher than our last forecast, largely due to higher termination fees in the first quarter.

G&A should total \$940 to \$950 million for 2018, which includes our \$70 million additional contribution to profit-sharing.

Our full year estimate of gains has increased \$20 to \$25 million, largely reflecting transactions that are already complete, including the sale in April of a JV interest that resulted in proceeds of \$46 million.

Our full year outlook assumes a 2018 effective tax rate of roughly 23 percent. In our February earnings guidance, we assumed a 22 percent effective tax rate. The change is due to some discrete items and fine tuning. For 2018, we continue to expect our cash tax rate will total 36 percent.

These assumptions yield \$5.43 to \$5.55 diluted earnings per share for 2018 and adjusted EBITDA of \$3.445 billion to \$3.5 billion, 10 to 12 percent over the 2017 adjusted EBITDA. Our full year adjusted EBITDA estimate reflects a roughly \$45 million negative impact from sold hotels, as well as the \$70 million cost associated with the retirement match for our associates.

As we discussed last quarter, our 2018 guidance excludes the adjustment to the Avendra gain, merger-related costs, the timing impact of reimbursed revenues and expenses, and adjustments to the tax charge.

Investment spending for the year could total \$600 to \$700 million, including roughly \$225 million of maintenance spending. The remainder includes capital expenditures, loan advances, equity investments, and contract investments. While contract investment is included in our investment spending estimate, under the new revenue standard, contract investment will be included in our cash flow statement going forward under the heading cash from operating activities rather than in the investing activities section as in the past.

We have already recycled over \$1.3 billion of capital through asset sales and loan repayments to date since the closing of the Starwood acquisition. We are on track to reach our post-acquisition \$1.5 billion target by year end 2018, but our 2018 earnings and cash flow guidance assume no further asset sales.

We repurchased nearly 8 million shares from January 1 through yesterday for approximately \$1.1 billion. With the benefit of higher anticipated earnings and cash flow, we now expect to return over \$3 billion to shareholders through share repurchases and dividends in 2018. Last quarter, we estimated cash return to shareholders of approximately \$2.5 billion for 2018.



Our balance sheet remains in great shape. At March 31, our debt ratio was at the low end of our targeted credit standard of 3 to 3.25 times adjusted debt to adjusted EBITDAR. We have modeled our 2018 income statement and cash flow forecast at a 3.2 times target.

We appreciate your interest in Marriott. So that we can speak to as many of you as possible, we ask that you limit yourself to one question and one follow up. We'll take your questions now.

#### **QUESTION AND ANSWER SESSION:**

**Smedes Rose, Citigroup:** I wanted to ask you, I guess, specifically on your pipeline. It was up around 5,000 rooms sequentially. I realize it's still a big number but it's a little lower in terms of growth than it has been. And I was just wondering if you could talk about, you mentioned the higher construction cost if that's impacting your pipeline or if there's anything else in particular going on in the quarter. And along with that, your deletions seemed a little higher than usual as well.

**Arne Sorenson:** Yes, those are all perfectly fair questions. The -- I think the best news around development pipeline we've put in the prepared remarks, which is the signing of about 10 percent more deals in Q1 than Q1 last year, which was gratifying to us. I mean, we have talked before about the fact that we think organic industry growth in the United States, in terms of new, signings were probably peaked in 2015, 2016 timeframe. Obviously, we've got some new brands. I would call out particularly Moxy and AC that are driving some of that sign-up as well as the sort of rebooting of Element and Aloft, which should give us the ability to compete better than the industry as a whole. But there's a lot of growth that's occurred in the United States, and I think as a consequence, having some increase in the number of signings was again a gratifying thing for us to see.

We did, as we do every quarter, look through the entire development portfolio. We culled some deals that we were less confident would ultimately get completed, and of course in culling those deals, we bring down a little bit offset the signings we've signed. So, we had a little bit less growth in total pipeline in Q1.

In terms of the deletions, each one is its own story. I think I've looked through every individual hotel that left the system in first quarter of 2018. It's never a surprise to see that many of those hotels are not contributing much in fees, in part because they are either near -- at the end of their contract life and not necessarily competing as well or participating in markets that are under a bit more pressure, or to some extent, because they weren't contributing sort of their fair share, we were less interested in having them stay in the system. And all those things sort of go into this calculation. But I think all things considered, we still saw some modest growth in the pipeline. And we're sticking tight with the 5.5 percent to 6 percent net unit growth, which again this year, we'll open more rooms than we did last year. Last year, we opened more than we opened the year before. And I suspect the odds are that next year, we'll open more rooms than we opened in 2018.

**Smedes Rose, Citigroup:** And then can I just -- as a follow-up, I wanted to ask you on your Tribute Portfolio. You mentioned you're testing it. I guess, how long would you be testing before you sort

of enter in a more formal way into this business? And I mean, what kind of scope do you think this could reach over a few years and just to be a more meaningful piece of earnings over time?

**Arne Sorenson:** Well, we're going to take this a step at a time. I think within a few months, we should be able to learn considerable lessons from what we're doing in London. And if it goes well and we're quite optimistic it will, we'll look at extending that to other cities. Our plan for timeshare or for home-sharing, excuse me, is to learn as we go here a little bit. But we want to make sure we are delivering a high-quality service experience, and we want to make sure we're delivering whole homes. So that it is, if you will, the higher end of the market. It's a place where branding can make a difference. It's a place where we can deliver an experience both in terms of service and quality that we want our customers to have. And it's a place where we can feel really good about connecting it to the loyalty program.

Now by the way, in the whole home space, it's also meaningfully different from a standard hotel room, which makes it a more comfortable place for us to add. But I think we'll watch this as we go. We'll obviously keep you posted on the way this is developing, but we're off to a great start in the first few weeks that we've been engaged with this in London. We're getting great response from our customers and we feel good about it.

**Robin Farley, UBS Investment Bank:** I wanted to ask on two things. First is on corporate negotiated rates. I wonder if you could talk about where you expect them to come in for the year in terms of a percent increase? And also, were a lot of those negotiations done before you saw the improvement in business travel that now you've seen in Q1? In other words, are those maybe at rates that wouldn't reflect where you'd want them to be for the year? And then I also had a question on margins, which was just that looking at your North American margin was basically flat with 2 percent RevPAR growth. And wanted to ask how sustainable that is. You talked about some of the cost saves from the combination and kind of that 50 basis points that, that would add hopefully this year as well. Is that enough to keep margins flat at 2 percent RevPAR growth?

**Arne Sorenson:** Leeny will take the margin question here, but let me make a couple of comments on the special corporate rates. We had special corporate rate growth of about 3 percent in Q1, which, all things considered, is not bad. I think your second question is fair though. Obviously, we negotiate special corporate accounts typically in the fall. And to the extent that we are more optimistic about the economy collectively now than we were in the fall, we presumably can do a bit better in those negotiations if they were happening today than we did last fall. But that's hardly a stark difference. And just let's take a reminder here. I think Marriott is performing extraordinarily well. Marriott's business model is performing extraordinarily well. We feel meaningfully better about our prospects today than we did a quarter ago. But we're still talking about 2 percent to 3 percent RevPAR growth in the U.S. for full year 2018. We're not changing numbers to sort of a mid-to high single-digit number, which obviously is something we've seen in some prior economic environments. And of course, that 2 percent to 3 percent RevPAR growth, that continues to put a premium on making sure we're driving rates, and now for Leeny, making sure what we can on the cost side.

**Leeny Oberg:** So on the margin side, Robin, you look at Q1 at 1.4 percent managed RevPAR growth. That was absolutely entirely -- essentially entirely from rate, which does help us to the extent of trying to hold onto as much margin as we can. However, we have typically thought about needing about 3 percent RevPAR growth to hold onto margin. And from that standpoint, with the synergies that we're getting from the Starwood acquisition, I think that number is probably a little bit better. But I think to assume 2 percent and flat margins, that would be a great goal to shoot for that we obviously would try to do. But it would be right at the edge of being able to hold onto margin, including the synergy benefits to be able to do that.

**Dariusz Ruch-Kamgar, Bank of America:** So, following up on Smedes's question on net unit growth. Looking out to 2019, do you think net unit growth could actually reaccelerate as elevated deletions from Starwood subside? And to what extent do you see rising cost across the construction environment as an offset?

**Arne Sorenson:** This is the danger about speculating already in an answer to a question about maybe having more opening in 2019 than 2018. I think we will -- we think that's possible because you just look at the pipeline and look at the years in which we signed the deals. We will have more hotels coming out of development pipeline in 2019 than in 2018. So, I think the gross openings globally could well be higher next year than they are this year.

In terms of deletions, that's -- it's probably too much to ask for at the moment. We are -- I'll anticipate maybe a question talking about Sheraton for a second. We are making really good progress with the Sheraton brand. We've talked to you in the past few quarters about the -- focusing first on the lowest 25 hotels and then the lowest 50 hotels in the U.S. If you look at the lowest 100 hotels in the U.S., which is really half of the Sheraton portfolio, nearly 3/4 of those are well on their way to being resolved. A handful of those leaving the system, most of them being renovated or will be renovated before long. Now it will take a year or 2 to get those renovations done, but we feel really good about the way that is continuing to move. We'll have to give you, as we get closer to 2019, a better sense for deletions next year. But I would think that the 1 percent to 1.5 percent deletion is the kind of number you should expect steady state, not necessarily a material change from that.

And then the last thing to hint to that in your question was really about construction delays. We are seeing really tight construction markets. Obviously, that is about labor but it's also about a lot of what is going on in the construction space. You've got, both in Florida and Texas, significant hurricane recovery work underway. You've got some infrastructure work that is happening across the United States. And you've got a fairly robust real estate business. And all of that is putting pressure on construction resources, which makes construction both a bit more expensive and has it take a little bit longer. The other thing that we're seeing in our pipeline is we have, a few years ago, we would have skewed a bit more towards a prototypical suburban limited-service hotel. I think today, even in our limited-service pipeline, we're seeing more of that be custom, more of that be urban. And those projects obviously take longer to get completed than the prototypical suburban construction. The good news in all of this is the projects are moving forward. And so, while they get stretched out a little bit, we know they're coming and we know they'll open up into the system.

**Dariusz Ruch-Kamgar, Bank of America:** And just as a quick follow-up probably for Leeny, looking at G&A and the expected \$70 million of expense related to employee profit-share matching in 2018, can G&A in 2019 actually be down in absolute dollars or does inflation put you closer to flat to up?

**Leeny Oberg:** Yes. So, we're getting ahead of ourselves as we think about 2019. But I think a more kind of classic steady-state G&A by the time we get to 2019 is fair. So, if you obviously think about a number that is -- when you're thinking about without the \$70 million, you're looking at a \$875 million sort of number that then you would argue that, that could potentially be lower than the printed number of the \$945 million in 2018.

**David Beckel, Sanford C. Bernstein & Co.:** I just wanted to, Arne, ask you about conversations you've been having. Clearly, the business environment is looking up. I'm wondering, does that more to do with actual cash in the coffers increasing because of the tax reform or more about expectations of forward economic growth improving?

**Arne Sorenson:** I think they are related, to some extent, and the answer is both. We -- obviously, we talk to a lot of our customers who participate in the economy in every industry. And I think from the time tax reform act was passed, you've seen a step-up in optimism. And the query we often give to our customers is, is it just optimism or are you actually seeing improved business conditions? And it's a majority that say, "No, no, no. We're actually seeing improved business conditions. And we are actually making decisions, which are more -- which are the effect of our more bullish impact," is not simply about attitude but it's about things that are actually happening.

Now to be fair, you look at earnings growth across the industry, looking at first quarter results across the U.S. corporate sector, and you see great earnings growth. A big chunk of that is tax and people are paying less in tax, and therefore, their earnings are moving. But you're seeing, more often than not, you're also seeing companies report revenue growth. And that's something that has been missing from the last few years of our economic recovery. So, you put all those things together, and it does seem like we are in again a meaningfully better place in the economy than just 3 or 6 months ago.

**David Beckel, Sanford C. Bernstein & Co.:** That's helpful. And as a quick follow-up, just on the home-sharing agreement, just to follow up on the last question. What is it that ultimately got you over the hump? I feel like you've been analyzing that opportunity for quite a while, so I'd love to know what finally got you to decide to put your -- get your feet wet. And secondarily, it sounds like you're pretty optimistic about what you'll find. Is there any circumstance at which you decide not to move ahead with this arrangement?

**Arne Sorenson:** Well, let's take the last one first. There's -- of course, until we complete this first test, we're not going to make any definitive decisions. We wouldn't have made the test unless we felt like it was likely to lead to a positive outcome however. And so, we are hopeful that we'll find stuff here that confirms our suspicion and we'll move forward.

We've obviously watched this space for the last number of years. We've been asked by all of you about the impact of this space and what it means. There are a couple of general comments I'd make. Seeing many of the folks who started in this business started with a business model, which fundamentally did not comply with law in most -- in many, I should say, cities and states and countries. And it's one thing for a start-up to engage in a business that really does not comply with law, it'd be another thing altogether for a 90-year-old company like Marriott to step into a business, which is fundamentally illegal. And as a consequence, one of the reasons we didn't jump into this quickly is we thought this is a business that is not made for us. We have now figured out that we can run this business in a way that does fully comply with law. It will include payment of lodging taxes so that it's a level playing field with the hotel business. It will very much include complying with the local regulatory requirements on number of nights homes can be let in this way and make that work. I think the other thing that we've observed is that as some of these platforms have grown into millions and millions of units, there is a -- almost a paralyzing array of choices and the lack of branding and the lack of real attributes of quality around service and product, makes this an area where we think we can bring our brands, we can bring our service and product focus and deliver something which is simply a better product to much of what is out there.

And then, of course, lastly, we think there's a strong loyalty connection, which obviously can be helpful here. The home-sharing business skews overwhelmingly to leisure travel, not to business travel. The loyalty space obviously, particularly around redemptions, but it could be around point earning as well is, we think, an advantage we've got that should bode as well in this space.

**Brandt Montour, JP Morgan Chase & Co.:** This is Brandt on for Joe. So, I just wanted to follow up on the managed hotels margin discussion if you take it one step further. So, looking forward, you have group commission rates going lower, right? You're rolling out a cohesive loyalty program later on in the year, and then there's other costs that are lower for your owners, given scale-related synergies. So, to what extent are each of these factors embedded into your IMF forecast?

**Leeny Oberg:** I would say generally, they are. Obviously, we will always try to hope to do better. But as we also talked about, there's the reality of labor cost increases that are also a major element this year in our managed hotels, particularly in the U.S. So, I would say that they are broadly included.

The one thing I also say, it's interesting is that for this year, we're actually -- I would expect by the time we get for the full year that 2/3, almost 2/3 of our IMFs will be from international hotels. And there again, that particularly in Asia Pacific, it's much more driven by what's going on with RevPAR since there aren't owner priority returns there. And that will be an interesting thing to watch. And I think you saw that clearly in Q1 with the outperformance in incentive fees with the very strong outperformance in Asia Pacific. And that we similarly saw the 1/3, 2/3 split in IMFs in Q1.

**Arne Sorenson:** The other point to keep in mind is the group commissions reduction took effect for bookings after April 1, 2018. 90-plus percent of all group bookings for 2018 are on the books prior to that, now maybe close to 95 percent if you think of as of April 1. So, the commission reduction is

not likely to have much of an impact in 2018. That will build over the years ahead as more new bookings get made.

**Brandt Montour, JP Morgan Chase & Co.:** Got it. That's helpful color. And then a follow-up or a second question. Which corporate customer segments are growing the fastest for you guys besides what you mentioned, the oil patch? And can you differentiate between volume and price?

**Leeny Oberg:** Well, in general, we're pleased with the price overall, I will say. From a rate perspective, we just generally feel good. I think when you're talking about fundamental business, we continue to see oil and gas, from a percentage increase basis, right at the top. But then for very steady kind of above-average professional services and technology, I would put at the top of the list. We still continue to see good numbers for financial services but not like the professional services and the technology and the oil and gas.

**Patrick Scholes, SunTrust Robinson Humphrey:** I apologize in advance, it's a little bit of a devil's advocate question here. But as we think about your financial projection going forward, it seems with the changes in the Rewards program, a little bit of devaluation of the Starwood side of things. How do we think about customer attrition from the Starwood loyalty customers in that regard going forward?

**Arne Sorenson:** Well, the response we've gotten from Marriott and Starwood customers has been overwhelmingly positive. And remember, what goes into this calculation for every customer is -- starts with the value of the program. And the value of the program really is about both points earning and where can I use those points.

We have, with the new credit cards, a powerful supercharged approach to collecting points. We have, with the points earned for hotel stays, maintained, if not increased, the value to the customers, including the SPG customers. And as a consequence, we think that the value equation looks very good. There is a huge advantage to all of the customers in that now with one loyalty program, it will be much easier to earn elite status, and the breadth of choice for redemptions as well, is simpler. And so, think about the comparison to the airline industry, if you will. Depending on where you all live, that is one of the significant factors that goes into which airline you tend to prefer. Because if you're in Dallas, you're going to likely be an American person. If you're in Atlanta, you're likely to be Delta. If you're in Washington, you're probably more likely to be in United. We don't have that weakness in the sense that we are able to offer places to stay in 127 different countries around the world. We offer more choice than any other hotel loyalty program. And as a consequence, both on the earnings side and the redemption side, it is a pretty powerful tool.

And lastly, and I hinted at this a bit in the prepared remarks, but when you look at, "Okay, do I want to earn all these points?" One of the answers is what can I use them for. And when you look at our distribution in the higher end of the market, luxury, lifestyle, resort destinations, the redemption options are dramatically better than any of our competitors. I think you roll all those things together and we are very optimistic that we will increase our share of wallet, not see any decrease

in share of wallet of our loyalty customers. And we'll continue to grow that customer community from the 110 million or so that we're at today to a substantially bigger number.

**Jared Shojaian, Wolfe Research:** So we see the cost synergies in the SG&A line, but is there a way to quantify if you've captured any revenue synergies so far? And as we think about those revenue synergies spooling up following loyalty and reservation integration, where should we see evidence of that? Is it mostly just the RevPAR line? And if so, should we expect that you'll outperform on RevPAR in the following years just from those synergies?

**Arne Sorenson:** Well, the RevPAR index, which we actually, I think as a lodging-focused investment community, probably don't talk about as much as maybe we should. RevPAR index is the single measure that cuts through geographic distribution, cuts through reliance on group business, cuts through chain scale and allow us to say, "How are you competing against the market?" And one of the reasons we don't talk about it as much is because it's not published in a way that allows you to see it quickly. You see the industry prognosticators reporting RevPAR. You see the companies reporting RevPAR. And we'll often talk about index but we may not always talk about index. And if we talk about index, you can't necessarily pierce through what it is we're saying to have your own source of data for it.

When we look at our performance from the time we closed the Starwood acquisition, so we're about 1.5 years in, we've been gratified to see that we have taken index steadily, albeit modestly, in those 6 quarters or so. And in some respects, it's not surprising because we haven't yet merged those loyalty programs, and we're just completing the merging of the sales and revenue management teams. And those are the kinds of things that are most likely to drive the share of wallet. But it's been pretty positive, nevertheless, because you would also expect pulling two big companies like this together and two sales forces and the uncertainty that comes from that, that there could be some distraction or some other things, which would actually cause a dip in relative performance. And we didn't -- we haven't seen that and we've seen good strength. As we get into the merging of these loyalty programs, which really is an August and later 2018 event, we are optimistic that we will see an increase of share of wallet, and that should translate into index growth. And of course, we'll be talking about index growth as those numbers get put in the books.

I think the other thing we look at, of course, is the strength of the credit card programs. We know already, based on the negotiations we've done with Chase and Amex, that they are as excited as we are about the power of this platform. And we see that in the terms of the deals we've negotiated with them, but we also see that in the way we talk with them about the opportunities we have together to grow this program. And obviously, we'll be talking about the contribution to the system and to us from those credit card programs in the years ahead.

**Leeny Oberg:** And I just want to add onto that, which is from the standpoint of the credit cards that Arne's talking about, remember that the credit card fees is just one component of the growth that we've got. We were able, through the renegotiation of this combined company, credit card arrangement to also increase the benefits to the customers as well as increased benefits to the owners and also increased benefits to the shareholders.

**Jared Shojaian, Wolfe Research:** Got it, that's very helpful. And then just as my follow-up, you talked about the strength in the Asia Pacific region. Is your relationship with Alibaba translating into that performance right now? Or is this -- the strength you're seeing mostly just other factors, be it demand or other issues? And then are you seeing more willingness from Chinese consumers to move up the chain scale? Is that helping you at all?

**Arne Sorenson:** Well, there is -- the data from the Chinese traveler is uniformly positive. And remember, we've got -- think about within China first maybe. In Shanghai, we must have something like 40 hotels open. Shanghai is the most international city in China. Our hotels are skewed dramatically towards the high end. And the bulk of our business in our China hotels even in Shanghai is Chinese. Now that's business traveler as well as leisure travel but you're seeing that the Chinese are participating in the high end of the market within China, and you're seeing the same thing in the China outbound markets.

We're seeing good growth year-over-year. It is double-digit growth Chinese volume to essentially every market around the world. Not surprisingly, the biggest markets for Chinese outbound travel are going to be near to China, Macao, Hong Kong, Indonesia, Thailand, to name a few, obviously -- Australia, to name a few obvious choices, but includes growth to Europe and growth to the United States as well.

The Alibaba piece in -- we are certain it is contributing to us. It's hard for us to know exactly what percentage it's fueling. And that's something we will continue to watch with them as that JV platform gets more and more rolled out. We mentioned that some of these things are coming now, Alipay but also the new storefront on Fliggy. And we are -- we did this for a reason. We think we can deliver real value to Alibaba's Chinese membership, about 500 million strong, and we can drive great results for us and it should be successful for both of us. Still a little bit early but I think it is clearly a positive.

**Stuart Gordon, Berenberg Research:** Just curious on your development pipeline and just on the chain scales. Would we be right in assuming that they're broadly similar as geographic splits or how about particularly the upper-upscale and luxury? Is it askew there to any particular region?

**Arne Sorenson:** So let's -- somebody can pull the chart for me as we talk. But we -- right now, let's talk about our regions first. Right now, we are -- our existing hotels are about 2/3 in the United States and 1/3 outside the United States. And the pipeline is a bit more than half, not dramatically more than half, but a bit more than half outside the United States and about half in the United States. So, we are, in the pipeline, skewing more than our existing distribution towards international markets. We mentioned in the prepared comments that our luxury and upper upscale share there is substantial particularly when compared to the rest of the industry. But I think we are seeing globally the power of these select brands. And so, any market in the world, including the United States but also including Asia, we are seeing that the Courtyards and Fairfields and ACs and Moxys are becoming very attractive to our partners. And so, I suspect that the pipeline is also skewing a bit more to select-service than our existing distribution in like-for-like markets.



Remember though that as we're going to more international, the international markets, in absolute terms, are more full-service in terms of the pipeline than the domestic ones. So that shift is probably not dramatic.

**Stuart Gordon, Berenberg Research:** And just as a follow-up, I think in the prepared comments, you mentioned that leverage is now at the lower end of your leverage range. And you've also said that your growing confidence in the economy. Should we be expecting that to migrate slightly up the way? Or are you more comfortable keeping it around about where it's just now through the next 12 months or so?

**Leeny Oberg:** We're comfortable -- we continue to be comfortable in the 3.0 to 3.25 times range. The reality is with our continued asset sales and the various -- you can't always plan exactly when that cash is coming in. We have tended, over the last 4 quarters, to be down closer to the bottom end of the 3.0 times. And the numbers that we actually gave in our guidance today, the modeling that we've used is actually at a 3.2 times coverage. So, I guess to your point, yes, I think we're comfortable as we think about managing it towards the higher part of the 3 to 3.25 times but still obviously in that range.

**Vince Ciepiel, Cleveland Research Company:** So a longer-term question coming back to alternative accommodations. I think you mentioned some things change regarding the legality as well as this kind of level playing field concept with regards to hotel tax, both of which raised your interest today versus a couple of years ago. But those changes aside, I was just curious your perspective on where you think consumer demand is at for alternative accommodations as well as the ability to browse for those stays, hotel and accommodation side-by-side. So, I guess directly, if the sharing program in London were to go well, could we, at some point, see hotel product and home-sharing products side-by-side on marriott.com?

**Arne Sorenson:** Yes, I mean, already in the London pilot, essentially that is the case. If you search London, you can find a link to Tribute Homes and be able to do both. And the notion, of course, here is driven by -- it's our view, I think it's probably fairly undebatable, that giving folks more choice is a positive thing. It is what has driven us to not just acquire Starwood but to try and compete with 30 different brands and have the kind of choice within the hotel space. And here we can offer a bit more choice. But again, choice that has the kind of quality we want to have connected to our system. And we think by having that loyalty program and that breadth of choice, we drive strength of all elements within that portfolio and think we can do more of that in the years ahead.

**Vince Ciepiel, Cleveland Research Company:** Great. And then a second question on the fee guide. Impressive going to, I think, it's 11 or 12-ish, up about 300, 400 bps from the prior. I was curious, you mentioned RevPAR might be part of that move higher, units is relatively unchanged as is the credit card. Is it 1 point or 2 tailwind from FX? And then what type of headwind is there from non-hotel fees that you're kind of overcoming because when we add up the credit card, the FX, the RevPAR and the units, it almost seems to point to something in the teens.

**Leeny Oberg:** So yes, so let's kind of run through those. First of all, you're right. FX is -- kind of go back to the broad view of 1 point of RevPAR, typically for us in the broadest sense, is typically about \$35 million. So, if you say, okay, we got about 1.5-point increase, that takes you up to over \$50 million increase in fees. Then we've talked about an additional \$25 million from FX. So roughly, these are always hard because it depends on what happens with which currency. But just most broadly, a 1 percentage point change in the value of the dollar, assuming it happens evenly, gets you to about \$11 million. And we've told you that our fee guidance has gone up \$25 million relative to where we were before. So, you've got the RevPAR, you've got the FX component. And then when you look at the non-credit card-related fees, the delta that we've talked about really overwhelmingly reflects the increase in the credit card fees.

So, if you remember now, app fees and timeshare fees are largely fixed. Application relicensing fees now have to be amortized over time, so they don't jump up and down the way they used to when you were able to take them in from cash, so they're going to be pretty steady. And then residential branding fees are really a relatively smaller component. And while they may go up or down \$5 million or \$10 million, it's really the credit card, the \$360 million to \$380 million that overwhelmingly drives the growth in that section.

And then the last point I'll make is that when we think of our classic rule of the \$35 million for 1 point of RevPAR, when you see that the outperformance in RevPAR is in Asia Pacific, that's obviously going to skew a little bit higher towards the IMF side of things, given there's no owner priority. So, I think that's part of what you're seeing is that we've increased our expected growth rate from IMFs fairly meaningfully as a result of the strong RevPAR performance, particularly in Asia Pacific.

**Stephen Grambling, Goldman Sachs Group:** Two questions. I guess, the first will be a follow-up on the credit card fees. Just to be clear, did you -- I guess, did you recognize, I guess, an equal contribution in the first quarter relative to what you'd expect over the course of the year? Or should it be steady over each quarter?

**Leeny Oberg:** You mean in the growth -- from a growth perspective year-over-year?

**Stephen Grambling, Goldman Sachs Group:** I guess, I'm -- you could define it either as a contribution to growth or just absolute dollars?

**Leeny Oberg:** In absolute, what did we talk about? \$87 million?

**Laura Paugh:** \$86 million in the first quarter.

**Leeny Oberg:** Yes, \$86 million, and we've talked about \$370 million for the whole year. So that would give you that it would actually, which would make sense, as you would expect, it would grow a bit as you continue to see new cardholders and increased spend from consumers over time. But as we talked about before, again, the increase year-over-year is overwhelmingly driven by the increased terms in the agreement. But yes, you would expect it to grow during the year.

**Stephen Grambling, Goldman Sachs Group:** Makes sense, that's helpful. And then an unrelated follow-up. You've seen some changes in kind of search results through Google and other OTAs. I'm curious if you've seen any changes there that impacted your direct booking trends and any color you can provide on that campaign.

**Arne Sorenson:** No, I think we're seeing a good stickiness with our efforts to drive direct bookings. We're seeing good growth on our digital platforms and trying to move that forward. And obviously, those are the bag of features that we talked about over the last few years, member-only rates, some features that are available to loyalty members and not others. And I think as the loyalty program gets stickier and stronger with the credit card program, we should continue to see that those customers grow and those customers are much more inclined to book directly. And that's the case almost no matter what happens with the search algorithms or approach that some of these platforms are taking. If the customers know that it is clearly in their interest to book direct, they're going to find a way to book direct.

**Stephen Grambling, Goldman Sachs Group:** And have you provided the percentage that's booked through your app specifically and how that's growing?

**Arne Sorenson:** I don't know that we have and I'm not sure we will this morning. But the -- it won't surprise you that digital growth and the mobile growth as well as the app growth is very robust.

**Leeny Oberg:** Overall, digital reservations are just a hair over 26 percent for the year 2017 anyway. Total direct would be 72 percent through a combination of digital and on property, including group bookings done at property and through the telephone.

**Felicia Hendrix, Barclays Bank:** Just Leeny, on the credit card branding fees, I was just wondering is there any way to grow that? For example, is there a language in the contracts that would allow you to benefit from upside spending if greater than expected?

**Leeny Oberg:** Absolutely. Absolutely. But again, time will tell. We're introducing new cards. We just introduced the new Chase card. The new Amex card will come out in August. And from that perspective, we look forward to lots of folks signing up and using the card. But what's in this year's expectations of the \$360 million to \$380 million is a bit of a steady as she goes cardholder usage and numbers of cardholders. And overwhelmingly, the increase related to 2017 is because of the new terms. But yes, as there's increased usage, absolutely over time.

**Felicia Hendrix, Barclays Bank:** Okay. But so far, just the \$360 million to \$380 million is representing the -- so there could be upside to that?

**Leeny Oberg:** Again, it all depends on behavior of consumers. It's kind of I would call completely normal not out of the ordinary sort of spend this year. But some normal growth because that's what we've seen, over the past few years, is some normal growth.

**Felicia Hendrix, Barclays Bank :** Okay. And then Arne, just a little bit earlier, you were talking about your -- the international part of your pipeline and how your exposure to international is better than your existing distribution. But just wondering if -- how we should think about that going forward. Do you think you could get that percentage to something even higher like in the 60s or even higher? And then also, you discussed the construction headwinds in the U.S. I'm just wondering if there's any headwinds in your, any of your international regions to talk about. I know we've talked about China in the past so maybe that and anything else.

**Arne Sorenson:** I think we -- it's a good question. I think this is a sort of a longer-term question. But I suspect over time, we'll continue to see that international mix continuing to rise. It's a big world out there. Obviously, our distribution outside the U.S. is much lower in terms of percentage of the total industry than it is in the United States. And much of the rest of the world has got economic growth numbers and growth in the middle-class numbers, which are more robust than the much more developed existing United States. Obviously though, at the same time, we are -- we're big in the United States and we're gratified to see that we're continuing to grow in the United States. And we don't want to turn off our focus on seizing the opportunities that are available to us in this market. So, you won't find us basically shutting down, if you will, our willingness to continue to continue to grow in the United States.

In terms of construction delays and the like in other parts of the world, nothing probably as dramatic as the United States. It tends to depend on the robustness of the economy around the world and whether any of those economies have, if you will, more demand for construction materials or construction labor than they have supply. And I think generally, that is much less the case in the rest of the world than it is here, certainly in terms of the material numbers. Now, there are other factors that go into development in other parts of the world that can take a long time to get permits. There may be much less -- many more permits that are required in some markets. Sometimes, that development process is not very transparent, and we obviously got to make sure that we and our partners are navigating that in a way which meets our standards. And so sometimes, that takes longer for us than it would in the United States. But generally, we're not seeing a deterioration, if you will, in the speed of the development process in the rest of the world.

**Bill Crow, Raymond James & Associates:** Speaking of development, it seems like your development partners in the United States have to be taking a haircut on expected returns, given the construction cost, the labor cost increases, higher financing costs, et cetera. I'm just wondering, are they coming to you for relief from a contract, help with financing? What are you hearing from the folks in the U.S.?

**Arne Sorenson:** Yes, it's a pretty astute question, Bill. The -- I think we have seen -- I think you're right. I think we've seen the cost of land increase. We've seen the cost of construction increase. We've seen the development period, which also drives cost obviously during the development process, cost of capital particularly, increase. And I suppose we're now on the front edge of seeing the cost of debt increase with interest rates starting to move up. Debt still seems to be reasonably well available for -- certainly for experienced developers. And as a consequence, I think they can find the money to pursue this.

I think at the same time, there is a strong sense that even though the returns may have -- maybe have gotten a little bit less, the returns are still fairly healthy compared to returns available in other real estate classes and maybe, to some extent, in other investment opportunities. And when you're looking at the select-service brands, particularly, there's less volatility in those -- the performance of those hotels. There's increased proof that those hotels can last and be competitive for a number of decades. You've got obviously lots of private platforms that are participating in this development process. And with the miracle of compounding, these are still pretty attractive deals. And I think as a consequence, that's why we're continuing to see the development pace be as strong as it is.

The only last factor I'd put in there, Bill, is while RevPAR growth at 2 percent to 3 percent, now to use our numbers in the U.S., is not as -- I mean, we'd love to see it be 2 or 3 times that size but it's not that robust. But nevertheless, the hotels, in absolute terms, are trading at really pretty good numbers. Good occupancies, good performance. And with the predictability that I talked about before, I think these are still investments which are attractive to folks.

**Bill Crow, Raymond James & Associates:** No, that's fair. My follow-up, Arne, is whether there's any benefit to Marriott from the Marriott Vacation Club acquisition of ILG.

**Arne Sorenson:** Generally, it will simplify things, and as a consequence, I think we're supportive of it. We've got good relationships with MVW and ILG. We had -- Leeny and team had already completed negotiations with both of those companies so that we were free to proceed with the merger of the loyalty programs and the websites and all the rest of it. So those restrictions were behind us. Nevertheless, I think to be able to deal with one company and not have either one of them necessarily looking behind the curtains to see, "Is there possibly something you've given to one that you haven't given to us?" will simplify things a little bit. I don't think it will be dramatic.

**Wes Golladay, RBC Capital Markets:** Can we go back to the international IMFs? Can you talk about what the main drivers are that's driving that growth? Is it more rooms in the system? Is it a higher percentage of the rooms paying fees? Is it the operating profit growth? And then when you look at how much RevPAR growth you need for margin expansion.

**Leeny Oberg:** So you got a bunch of things there. So obviously, when you've got RevPAR, for example, in China that gets close to 12 percent, you're going to get pretty spectacular margin improvement there. And with every dollar of increased profits, we get a share because in Asia Pacific, there's no owner's priority. So, from that perspective, I would say that the biggest chunk of the growth in IMFs is coming from Asia Pacific and their very strong performance.

When you look at the overall kind of percentage, you are seeing that kind of year-over-year compared to a year ago, the percentage of hotels earning incentive fees internationally did go up 3 percentage points, went up from 68 percent to 71 percent. Overall for the company, actually down a little bit because in the U.S., we had a couple large limited-service portfolios that with, relatively speaking, lower managed RevPAR growth, they paid a lower percentage of incentive fees. But again, it was  $\frac{2}{3}$  -  $\frac{1}{3}$  and that is  $\frac{2}{3}$  of our IMFs coming from international, you're clearly seeing

the benefit of the fact that most of those contracts do not have owner's priority. And I'd say from a unit growth perspective, for ramping up hotels, you're getting a nice amount of IMFs, but I would say that the RevPAR growth is the biggest driver.

**Wes Golladay, RBC Capital Markets:** Okay. And then when we look at that 2/3 or just the international component of the IMF, how much is the Asia Pacific region of that bucket?

**Leeny Oberg:** We can get it for you. I don't have it.

**Laura Paugh:** Give me a call after the call, I'll get that for you.

**Leeny Oberg:** I will say in general that our fees overall tend to be fairly well distributed relative to the room counts, but you are going to find obviously, particularly this time, that Asia Pacific on the IMF side is going to be higher proportionately.

**Arne Sorenson:** All right. Thank you all very much for your participation and your attention today. Great, as always, to talk with you. Get out there and travel. We'd love to welcome you to our hotels.

--End--

**Note on forward-looking statements:** This document and accompanying presentation contains “forward-looking statements” within the meaning of federal securities laws, including our RevPAR, profit margin and earnings outlook and assumptions; the number of lodging properties we expect to add to or remove from our system in the future; the timeline for the unification and combination of our loyalty programs; our expectations regarding the estimates of the impact of new accounting standards and the new tax law; our expectations about investment spending and tax rate; 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 or annual report on Form 10-K. Risks that could affect forward-looking statements in this document 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; the extent to which we can continue to successfully integrate Starwood and realize the anticipated benefits of combining Starwood and Marriott; changes to our provisional estimates of the impact of the U.S. Tax Cuts and Jobs Acts of 2017; and changes to our estimates of the impact of the new revenue recognition accounting standard. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of May 9, 2018. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.