Marriott International, Inc.
Fourth Quarter 2018
Earnings Conference Call Transcript[1]
March 1, 2019

Operator: Welcome to the Marriott International fourth 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: Welcome to our fourth 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.

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

In our discussion, we will talk about 2018 results compared to 2017 results adjusted for merger-related costs and charges, cost reimbursement revenue, and reimbursed expenses. In addition, the 2017 fourth quarter excludes the Avendra gain and the provisional tax charge resulting from recent tax reform, while the fourth quarter of 2018 excludes adjustments to the provisional tax charge resulting from recent tax reform. Of course, comparisons to our prior year reported GAAP results are in the press release, which you can find, along with a reconciliation of non-GAAP financial measures, on our website.

We've accomplished a lot since the acquisition of Starwood in late 2016. We recently unified all three loyalty programs into our newly branded program, Marriott Bonvoy. Our operations and discipline teams are fully in place. We've created significant value through combining sales organizations, improving cost efficiencies, and negotiating new co-branded credit card agreements. And we've realized more than $250 million of corporate G&A savings. Today, we truly feel like one company. These integration efforts required extraordinary planning and execution by our team, and I couldn't be prouder of their work.

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

In a transformation this large and all encompassing, it would be surprising not to encounter some challenges. In late November, we disclosed a data security incident involving the Legacy-Starwood reservation database.

Beginning with our public announcement regarding the incident on November 30th, we rolled out a broad guest outreach effort. As we addressed customer issues, the number of calls to our dedicated call centers declined from over 40,000 in December to fewer than 6,000 calls in January and less than 3,000 calls in February. It was encouraging to hear on their earnings call in January, Stephen Squeri, CEO of American Express, note that his firm has seen no appreciable spike in credit card fraud resulting from this incident. Our forensic review of the incident is now complete, and as we said in January, the number of guest records involved is lower than we originally estimated. We are no longer using the Legacy-Starwood reservations system and we have implemented additional security measures on the Marriott network. We do not believe there has been any material RevPAR impact from this incident. Our board of directors has been very engaged in this matter. All of us remain committed to learn from this experience, work to improve our information security systems, and increase our ability to respond quickly to threats.

So, let's talk about 2018.

Membership in Marriott Bonvoy reached nearly 125 million members at year-end 2018 and it remains the largest and most valuable travel program in the hotel business. We have been adding on average 1.5 million members per month. Members are highly engaged. In 2018, reward redemptions increased 8 percent year-over-year and roomnights sold to members increased 6 percent, both reaching record levels. Marriott Bonvoy members contributed roughly half of our roomnights in 2018.

Our hotels continue to deliver the great service our guests expect. We now offer keyless entry at over 1,400 hotels, and today, mobile check-in and check-out is available at nearly all hotels. Our new Enhanced Reservations System, or ERS, was rolled out to over 800 hotels as of year-end and should be available at over 2,000 hotels by year-end 2019. ERS allows guests to select rooms based on a variety of room characteristics such as bed type, view, high or low floor, and so on, with more photographs and hotel descriptions.

Worldwide, 2018 full year systemwide[2] RevPAR rose 2.6 percent and property-level house profit margins for our company-operated hotels increased 40 basis points, despite labor costs rising roughly 4 percent. We captured cost savings at properties, realized procurement benefits, and improved productivity. We reduced the amount of discounting at Legacy-Starwood hotels and, across our system, increased the proportion of bookings coming from our digital channels. In fact, in 2018, our direct digital roomnights worldwide increased 11 percent, reaching 28 percent of all bookings, while OTA share of bookings remained flat.

[2] Transcript corrected to reflect intended wording

We believe the cost of our loyalty program is the lowest among our competitors in the hotel business, while delivering the highest value to guests. While charge-out rate savings from our loyalty program differ by brand, on average, since the Starwood acquisition, the charge-out rate of our overall loyalty program has declined by roughly 50 to 60 basis points, benefiting from integration synergies, as well as the new co-brand credit card agreements. Lower loyalty costs should also benefit hotel margins in 2019 since the charge-out rates declined most meaningfully late in 2018.

Just over 100 hotels left the Marriott system in 2018, which strengthened our overall system quality. The deletion rate for Legacy-Marriott product totaled 1.3 percent of total rooms, while the rate for Legacy-Starwood product totaled 2.5 percent. Despite this, we grew our overall rooms distribution by nearly 5 percent, net. By the way, RevPAR index and fees per room of the deleted hotels were, on average, meaningfully lower than the rest of our comparably branded hotels. We expect overall deletions to return to a more normal level of 1 to 1.5 percent of rooms in 2019, resulting in net system growth of roughly 5.5 percent.

On the development front, we signed agreements for a record 125,000 rooms in 2018, equivalent to nearly 10 percent of our existing portfolio. Even more important, the net present value of the signed deals also reached record levels. Our pipeline increased for the 26th quarter in a row to reach a record 478,000 rooms with 214,000 rooms already under construction.

At year-end, our market share of worldwide open rooms was 7 percent; our market share of STR's worldwide under-construction pipeline was a leading 20 percent. In North America alone, our market share of open rooms was 15 percent while our market share of STR's under construction pipeline was 36 percent.

We migrated Starwood hotels to Marriott systems late in the year. In five waves from September to December, we shifted 11 brands encompassing roughly 1,500 managed and franchised Starwood hotels onto Marriott's platforms, including systems for reservations, revenue management, and sales & catering. This was a highly complex undertaking, involving many people, processes and technology. While further fine-tuning and training is underway, this is a massive step to have behind us.

So, let's talk about the fourth quarter. Marriott's worldwide systemwide comparable RevPAR increased 1.3 percent on a constant dollar basis and North America RevPAR rose 0.2 percent. North America systemwide RevPAR growth was impacted by a more modest[3] industry demand environment and by labor strikes.

Looking ahead, for the first quarter of 2019, we expect systemwide North America RevPAR will increase 1 to 2 percent. With the favorable timing of Easter, group business is expected to be stronger in March.

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[3] Transcript corrected to reflect intended wording

Encouragingly, North America RevPAR increased 50 basis points in January, despite the government shutdown and some lingering impact from the strikes, particularly in Hawaii.

For full year 2019, we continue to expect North America systemwide RevPAR will increase 1 to 3 percent. We expect group business will increase at a low single digit rate during the year. Special corporate rate negotiations are nearly complete and rates for comparable customers are also increasing at a low single-digit rate. In 2018, our North America region accounted for 68 percent of our hotel-based fees.

In the Asia Pacific region, constant dollar systemwide RevPAR rose more than 5 percent in the fourth quarter, consistent with our expectations. RevPAR growth in India and the larger cities in China remained strong, while new supply constrained RevPAR growth on Hainan Island in China, and moderating manufacturing demand slowed RevPAR growth in southern China markets. Food and beverage sales in China were weak reflecting more cautious corporate spending. On the other hand, outbound China leisure demand remained robust, resulting in strong demand in leisure markets across the Pacific Rim.

For the first quarter and full year 2019, we expect RevPAR in the Asia Pacific region will increase at a mid-single digit rate, with continued strength in India and most major markets in China. Hotels in Japan should benefit from higher attendance for the 35th anniversary of Tokyo Disneyland. In 2018, our Asia Pacific region accounted for 15 percent of our hotel-based fees.

In Europe, fourth quarter RevPAR rose more than 5 percent with strong demand from U.S. travelers in London. Center city Paris hotel demand moderated due to yellow-vest political demonstrations and the resulting closed tourist attractions. Barcelona demand was strong, benefitting from the easy comparisons to last year's Catalonian political issue.

Looking ahead, assuming no business disruption from Brexit, we expect RevPAR in Europe will grow at a mid-single digit rate both in the first quarter and full year 2019. Last year, our Europe region represented 9 percent of our hotel-based fees.

RevPAR in the Caribbean and Latin America region increased nearly 7 percent in the fourth quarter compared to last year. Strong RevPAR growth at resort hotels in the Caribbean, particularly Aruba and Grand Cayman, was helped by the lack of new supply in the region and strong holiday demand. In South America, RevPAR was aided by the G20 meeting and currency devaluations in Argentina and Brazil. We expect first quarter and full year 2019 RevPAR in the region will increase at a low single digit rate as Caribbean hotels continue to reopen after the 2017 hurricanes. Our CALA region accounted for 4 percent of our hotel-based fees in 2018.

In the Middle East and Africa, fourth quarter RevPAR declined over 5 percent. RevPAR in Egypt increased sharply in the quarter on strong tourism demand. However, continued sanctions on Qatar and oversupply and a higher VAT in the UAE and Saudi Arabia continued to reduce RevPAR growth for the region overall. With the challenging political climate in the Middle East, we expect RevPAR in the region will decline at a low single-digit rate in the first quarter and will be flattish for full year 2019. In 2018, MEA accounted for 4 percent of our hotel-based fees.

Beyond things I've already discussed, our 2018 successes on other fronts also give us greater confidence in the future. We'll talk more about these at the analyst meeting later this month.

Our home-sharing pilot in Europe attracted great interest from our loyalty program members and yielded significant learnings.

We've made meaningful progress on transforming the Sheraton brand, with new designs, higher guest satisfaction, and better margins.

We rolled out new co-branded credit cards and generated record branding fees. And we exceeded our expected bookings on our new Ritz-Carlton yacht.

We believe that all of this, built on a foundation of industry leading brands and the most powerful loyalty program in travel, as well as our long commitment to service excellence, will continue to propel Marriott's success. With a highly efficient cost structure, we should deliver leading profitability for our owners and franchisees. For all of this, I'd like to thank the Marriott associates whose hard work made all of this possible and, of course, to our many guests who have remained loyal and patient through the transition.

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

Leeny Oberg: Thank you, Arne.

For the fourth quarter of 2018, adjusted diluted earnings per share totaled $1.44, roughly 5 cents ahead of the mid-point of our guidance of $1.37 to $1.41. On the fee line, we picked up about a penny of outperformance, largely due to better than expected credit card branding fees and fees from new units. G&A was a penny better than expected and the tax line yielded about 3 cents of outperformance, partially due to discrete tax items.

Compared to the prior year, base fees increased 1 percent. The favorable impact of unit additions and RevPAR growth was largely offset by the impact of properties that converted to franchised, as well as hotel deletions during the year.

Franchise fees increased 13 percent in the quarter, reflecting unit growth, including properties converting to franchised, growth in credit card branding fees, and higher RevPAR. Non-property franchise fees including application fees, relicensing fees, and fees from our timeshare, credit card, and residential businesses, together totaled over $140 million in the quarter, 24 percent higher than the prior year. Credit card branding fees alone increased 44 percent in the quarter to reach over $100 million for the quarter and $380 million for full year 2018.

Incentive fees declined 4 percent year-over-year in the fourth quarter, largely due to a $7 million impact from the labor strikes, as well as difficult comparisons in the Middle East and unfavorable foreign exchange. Incentive fees were helped by new unit growth and higher net house profit at most hotels.

Owned, leased, and other revenue, net of expenses, totaled $88 million in the fourth quarter compared to $89 million in the year-ago quarter. Since the beginning of the 2017 fourth quarter, we've sold 7 owned hotels, in nearly all cases retaining long-term management agreements. Compared to the prior year, these asset sales reduced our fourth quarter 2018 owned/leased results by $14 million. Termination fees are also included on the owned/leased line. These fees totaled $15 million in the quarter compared to $4 million in the year ago quarter.

Depreciation and amortization increased to $62 million in the quarter compared to $53 million in the prior year. The increase was largely due to a $7 million favorable adjustment related to Legacy-Starwood IT systems in the 2017 quarter.

General and administrative expenses totaled $242 million in the fourth quarter, a 10 percent decline from the year-ago quarter, largely reflecting continued cost reductions due to the Starwood integration. Partially offsetting these cost savings was a $7 million expense associated with our supplemental investment in our workforce.

Fourth quarter adjusted EBITDA increased 10 percent over adjusted EBITDA in the prior year. Compared to the prior year, fourth quarter 2018 adjusted EBITDA was negatively impacted by $12 million from sold hotels.

Fourth quarter expenses associated with the data security incident that we disclosed on November 30 totaled $28 million pre-tax, offset by approximately $25 million of insurance recoveries as of year-end. The net of these amounts is in either the Reimbursed expenses line or the Merger-related costs and charges line. Therefore, these expenses did not impact adjusted EPS or adjusted EBITDA results. The timing of the expenses associated with the data security incident may differ from the timing of the recognition of insurance recoveries.

In the fourth quarter, we identified certain immaterial errors related to our accounting for our loyalty program, which resulted in the understatement of cost reimbursement revenue, net of reimbursed expenses, in the first three quarters of 2018. Our 10-K, which should be filed later today, will include revised GAAP quarterly amounts reflecting the corrections of these errors, the impact of which is a $99 million increase to previously reported net income for the first three quarters of 2018 combined. In our 10-K, we will report a material weakness in internal control over financial reporting related to loyalty program accounting. We remain committed to maintaining effective internal controls and are in the process of instituting a remediation plan. These accounting adjustments were limited to the cost reimbursement revenue and reimbursed expenses lines on our P&L, and the related tax impact. The adjustments are non-cash, and do not impact our previously reported adjusted EPS or adjusted EBITDA amounts.

For full year 2019, we expect fee revenue will increase 5 percent to 7 percent to reach $3.83 to $3.91 billion. We expect to achieve this despite $15 to $20 million of unfavorable foreign exchange headwinds, low single digit growth in incentive fees, and lost fees from terminated properties in 2018. We expect credit card branding fees alone will total $410 to $420 million, as a result of continued growth in the number of new cardholders and higher average spend.

In 2019, owned, leased and other revenue, net of direct expenses, should total $280 to $290 million compared to $329 million in 2018. We expect termination fees will be roughly $20 million, or $45 to $50 million lower than 2018.

During the first quarter of 2019, we closed on the purchase of the remaining 40 percent joint venture interest in AC hotels, resulting in the company owning all of this highly successful and fast-growing global brand. We entered into our original AC joint venture agreement in 2011. Since then, we have almost tripled the distribution to 265 AC hotels open or under development around the world. As a result of our purchase of the remaining interest, our joint venture earnings will be a bit lower in 2019, while fees and G&A will reflect our 100 percent ownership of the brand.

We estimate general and administrative expenses will total $910 to $920 million in 2019, a 1 to 2 percent decline from 2018 levels. Recall that full year 2018 G&A included a $51 million expense for our supplemental workforce investment.

Because of our outstanding capital recycling in 2018, our 2018 adjusted diluted EPS included $0.65 per share of after-tax gains on the sale of owned and joint venture assets. 2018 results also reflected an effective tax rate of 19 percent, reflecting the benefit from windfall tax and some discrete items.

For full year 2019, we expect adjusted diluted EPS will total $5.87 to $6.10, a 2 to 5 percent decline from the 2018 adjusted diluted EPS of $6.21, reflecting a more typical effective tax rate of 23 percent for the year and no further asset sales. To summarize, compared to our adjusted EPS for 2018, our EPS estimate for 2019 assumes higher fees and lower G&A, offset by lower year-over-year termination fees, lower gains, a higher tax rate, and higher foreign exchange headwinds.

We expect adjusted EBITDA will total roughly $3.62 to $3.72 billion or 4 to 7 percent over 2018 levels. Our 2019 adjusted EBITDA will also face the headwinds from lower termination fees and foreign exchange. While we are hopeful we will sell additional assets in 2019, our guidance assumes no asset sales and no net expense from the data security incident.

We remain disciplined in our approach to capital investment and share repurchase. We returned nearly $3.4 billion to shareholders through dividends and share repurchases through year-end 2018. This reflected the company's strong operating cash flow, the benefit of $650 million of asset recycling, including joint ventures' sales of two hotels, as well as loyalty program cash inflows. Our recent share repurchases have been modestly lower than we expected as we suspended share repurchases for a time while we worked through the data security incident and the loyalty accounting matter.

Speaking of the loyalty program, it generated several hundred million dollars of cash in 2018, more than is typical in most years. This was in part due to a large one-time cash payment received from the credit card companies upon signing our co-branded credit card agreements. In 2019, we expect the loyalty program will likely be closer to cash flow neutral due to the timing of marketing and related costs associated with the launch of Marriott Bonvoy and higher redemptions.

2019 investment spending could total $500 to $700 million, including about $225 million in maintenance capex spending. We have already recycled nearly $1.9 billion of assets since closing the Starwood acquisition, including $650 million in 2018.

Thus far in 2019, we have repurchased 2.4 million shares for $300 million. For the full year, assuming no asset sales, we expect we will return at least $3 billion to shareholders through dividends and share repurchases.

Our debt ratio on December 31st was within our targeted credit standard of 3 to 3.5x adjusted debt to combined adjusted EBITDAR. You will recall that our capital allocation strategy is built around our commitment to maintain a solid investment grade credit rating. We have targeted this rating in recognition of the value of financial flexibility in a cyclical business. We also strive to maintain the right balance between minimizing our cost of debt and having sufficient leverage to enhance returns.

We know you are always eager for more information. We hope you can join us on March 18th, 2019 at the New York Marriott Marquis for our Security Analyst Meeting where we will spend more time looking to our future opportunities. Please be sure to register for the conference with Investor Relations if you'll be coming.

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

QUESTION AND ANSWER SESSION:

Shaun Kelley, BofA Merrill Lynch: I'd like to maybe start with the core SG&A. Obviously, there's a lot of moving pieces between everything you're working on in the integration, the new launch of Marriott Bonvoy and some of the other investments that you're making. I think when we do our math and we try and strip out the employee investment, we get something like roughly a 4 percent, maybe 4 to 4.5 percent growth rate in SG&A. And just wondering if you could kind of give us some -- a little bit of longer-term view. Is that sort of the right level for the business going forward? Or is that a little bit elevated based on some of these other things you're dealing with just as we think about the model long term?

Leeny Oberg: Yes, no, it's a good question and thanks. I think it's one of the reasons we wanted to make sure to mention about the purchase of the AC joint venture. If you think about that going from being in our equity line to now being fully consolidated, we're going to be adding between $5 million to $10 million of G&A that comes from moving the geography of that line item into our G&A. So actually, you need to remove a full point of the growth that comes from just that change in and of itself. But certainly, as we think about the long-term growth in G&A, we do continue to think that we will see additional operating leverage in the business as we move forward. And we look forward to talking to you more about it when we talk about our longer-term horizon at the Security Analyst Day.

Shaun Kelley, BofA Merrill Lynch: Maybe just to kind of follow up more as a clarification then. With the -- are there any sort of onetime expenses or anything that you guys are contemplating from, let's call it, some of the -- whether it's integration carryover and putting some additional property salespeople in to help Starwood owners or anything from the data breach? Just anything investors should be aware of as it relates to the, I guess, the number itself in 2019.

Arne Sorenson: Shaun, I'd jump in here for a second. The specific hypotheticals you raised are really not in that number in the sense that the cyber event, which obviously will continue to cost us some dollars, we think, will go mostly in the transaction cost, integration cost and reimbursed expenses buckets and will not be in that core G&A number. And obviously, what we do with respect to sales force and the like would likely be treated very much the same way.

But to be fair, while we are focused very much on making sure we continue to drive efficiencies in the business, we are continuing to invest for the future. And we've got exciting growth taking place across many aspects of the business and that does require some investment. I think we will continue to be able to grow our G&A expenses at a meaningfully lower pace than we can grow our top line.

Jared Shojaian, Wolfe Research: So, Arne, can you just talk broadly about the demand environment and what you're seeing right now? I think last call, you called out some demand softness in September -- quarter on RevPAR obviously came in a little bit lighter for various reasons. Can you talk about that, how that's progressed and really so far year-to-date now that we're through, I think, a lot of the government shutdown and some of the onetime things that we experienced in January, maybe you can just talk a little bit about how that's trended.

Arne Sorenson: Yes. So, there's a lot I could unpack in that and let me give you at least a superficial run through both fourth quarter and kind of the way we think about 2019. And then obviously over the balance of the call, we can probe any of this in more depth to the extent any of you would like us to. Fourth quarter obviously, think particularly about North America, which is where my comments will focus unless I sort of specify otherwise. But fourth quarter was lighter than we anticipated without a doubt. And we have with systemwide RevPAR growth of 0.2 percent. Obviously, we have poked and prodded at those numbers in every way we possibly can to try and glean as much learning out of them as we can.

There are a couple of places where it's pretty clear what the impacts are. The first would be on strikes, which we called out in both the script and the release itself. Obviously, during the fourth quarter of 2018, we had strikes in 6 or 8 cities across the United States, including very significant hotels in markets like Boston and San Francisco and Honolulu but also in a few other markets. And we can very easily zero in on that and see that those hotels alone caused us to lose 0.5 point of RevPAR index in Q4. So, it's a pretty significant kind of impact. Obviously, that is, by and large, behind us. It's pretty clearly a onetime event. There's a little bit of lingering impact, particularly in Hawaii because you do have some impact while the strikes are still pending on the bookings that are coming in for futures stays. But now that they're behind us, that should rebound fairly quickly.

On the other side, one thing we think we've reasonably well excluded, we also put in the script, which is the impact of the cyber announcement on November 30. That too is a relatively easy thing to look at because you can look at customer behavior after a date certain when an event was announced. And we really did not see any move by customers in response to that.

Now beyond that, we've looked at a number of other things, some of them logically seemed to us to probably perhaps had some impact to the fourth quarter, some -- it's a little hard to sort of separate them out in a way. But we've got -- we talked before about this over 2018. We have been a bit more aggressive in yielding our inventory off of some channels, which are less preferred. And during the fourth quarter, it's quite conceivable that, that could have had some impact the way it has had in prior quarters. Group intermediation fees, group commission fees, we had moved first, and while many of our principal competitors have moved similarly, we were exposed to having lower commissions for much of 2018. And we think probably in the year, for the year group bookings would have been most pronounced impact in Q4.

And lastly, of course, as we mentioned, we had big integration movements in Q4, moving the Starwood Hotels onto Marriott's revenue systems. Think about reservations and catering and revenue management. That is a big suite of systems that hotel teams and above-property teams have got to get used to using, which is about training and it's about calibrating the systems and some of those sorts of things and we can talk about any of that. But it's quite logical that, that could have had some impact there, too. I go through all that in part because I think when we look into 2019, which is, in many respects, the most important question. Ironically, we're maybe as optimistic or maybe even a little bit more optimistic than we were a quarter ago. A quarter ago, we had not done our budget. A quarter ago, we didn't have the weaker Q4 that we were looking at. And notwithstanding that, we see really in the U.S. a sort of steady-state set of expectations for 2019. In fact, if we've talked in a few quarters, I don't think last quarter, but a few in the last couple of years. When we look at quarter by quarter, North American RevPAR performance and we adjust for holidays shifting from one quarter to another or hurricanes or inaugurals or the like, what we see is sort of typical quarterly RevPAR growth in the high 1s, nearly 2 in 2017 and 2018. And you can see in our midpoint for 2019 we're really looking at 2. And so we feel pretty good and feel again probably just a touch more optimistic than we did a quarter ago.

Jared Shojaian, Wolfe Research: That's really helpful. And then, I guess, just shifting to unit growth. As we look at units beyond 2019, I imagine you'll dig more into this at the analyst day, but what's the right way to think about this over the longer term? I guess, really 2 components, you've got the gross side and you've got the exits. On the gross side, how are you thinking about that 7 percent, and the pipeline showed another nice sequential increase this quarter. So, is it possible that you could go beyond the 7 percent? And then, I guess, on the exit side, is 1 to 1.5 percent the right way to think about that over the longer term? Or do you think you have some room to improve on that?

Arne Sorenson: So, we'll take you through a model of this at the analyst conference and give you a considerable level of detail about it. I think a couple of things are reasonably obvious here. One is we'll continue to see some deletion behavior. We have obviously been in the business for a long time, and we want to see some number of hotels leave our system every year because of the importance of product quality. We think 1 percent to 1.5 percent is probably the right sort of steady-state assumption for now. But again, we'll take you through why that makes sense when we're together in March.

In terms of future years' gross new openings, I think the most comforting thing here, I'm not going to give you another percentage other than what we've talked about this morning, is that 478,000-room pipeline is, as of the end of the year, net of all activity. All activity to include the incoming new deals, the openings that have opened into the system in 2018 but also the deals that we have culled because they look less likely to open. And all of that, we still have whatever it was, our 25th straight quarter, I can't remember precisely the number...

Leeny Oberg: 26th.

Arne Sorenson: 26th straight quarter of pipeline growth. And we have a high level of predictability that those hotels are going to open into our system over the next number of years. And so, I think that kind of superficial look tells you there's some good news in that number. But again, we'll take you through the model when we're together in March.

Leeny Oberg: I think the only other thing I'd add is one of the things, I think, we've been particularly gratified by is that as we see these rooms coming on to the pipeline is the NPV point that Arne mentioned earlier, which is that the value of the deals that we're adding and the strength of the contracts continues to be what we want to see for the long-term growth of cash flow for the company.

Anthony Powell, Barclays Bank PLC: You started the call with some very positive data points on customer engagement with the loyalty program. Could you maybe focus that commentary on Legacy-Starwood loyalty members and Legacy-Starwood properties? Are those customers as engaged with the new program as your Legacy-Marriott customers and are your Starwood properties seeing a similar increase in redemptions?

Arne Sorenson: Yes, so that's all a good -- very good question. The -- and again, here too, we'll take you through some of this in considerably more detail when we're together in March and hope we'll be able to see you there. The level of change obviously for the Legacy-SPG member in the latter part of 2018 was meaningfully higher than for the Legacy-Marriott rewards members. The -- so obviously, we transferred -- internally, we call it something LD1 and RD1. LD1 is loyalty day 1 and that was really in the latter part of August where we transferred, oh I don't know, 4 billion, if I remember right, customer records from the Legacy-Starwood system to Legacy-Marriott system. And while it went pretty well, there were some areas where the data did not translate accurately, and we ended up with call volume moving up and some wait time issues that were frustrating and probably disproportionately impacting the SPG members whose data was transferred. And so, we've been working through that as we go along.

I think the great news in this is even when we hear complaints from SPG customers, and we have some since the amount of change that they've seen, is that they remain extraordinarily passionate about the program, taking almost a co-ownership stake to it. Why? Well, partly it's their tradition and their history but significantly, it's because of the portfolio of luxury lifestyle and resort properties, which Starwood had and which now we have on a combined basis at a dramatically improved level. And so, when we see redemption behavior, when we see engagement behavior with those customers, they continue to see the strength of this portfolio. And again, for those that are frustrated, we're going to work through this and make sure we do well by them. But we're still quite optimistic that this is going to work the way we planned it.

Anthony Powell, Barclays Bank PLC: Got it. Do you see any negative RevPAR index impact in the fourth quarter due to some of those changes you mentioned for the Starwood brands?

Arne Sorenson: Yes, and again, this is -- these are the efforts, we really sort of teased through those numbers. The strike commentary that I made with 50 basis points impact on the entire portfolio, Starwood and Marriott combined in North America in the fourth quarter. That disproportionately is driven by Starwood Hotels. They were -- they tended to be much more unionized. And so, if you look in Boston and San Francisco and Hawaii and these other markets, you'll see that a meaningful majority of the hotels which were impacted were Starwood Hotels. And so that's one of the things that we start with.

We have, on the other hand, looked carefully, and it's hard to get some of this data but we've looked at some share of wallet data to the extent we can get it, we've looked out some behavior patterns of SPG members. And while that data is not crystal clear, it is not sending alarm bells off. It does not look like we are sort of bleeding volume for the Legacy-SPG member even if we've got a bit of frustration that we've been working our way through it. By the way, it's not all behind us but much of that is behind us. Call wait times are back to normal levels, they have been for some time. The data issues are getting knocked off one by one and, by and large, are behind us. And so, we think we're making good progress there.

Smedes Rose, Citigroup Inc.: I wanted to follow up just a little bit on your commentary on lifestyle and luxury hotels. You're -- obviously, you're growing at a very fast pace and folks are going to look to redeem their points. I'm just wondering, in your capex guidance and thoughts about adding properties, maybe even more in the soft brand collections, are you more focused on resorts now than you may have otherwise been? Do you feel like that's something you need to improve in your overall portfolio? Or is it the balance right where is it now?

Arne Sorenson: Well...

Leeny Oberg: I'll talk about one thing first and then -- and Arne can talk more broadly. Just from a capex standpoint, the numbers that we talked about, $500 million to $700 million, that does not assume any particular single asset purchases or built on balance sheet. Now it does include the capex PIP that we're doing for the Sheraton Grand Phoenix, which was, as we've talked before was, let’s call it in the ballpark of $40 million and that is in our capex numbers. But in terms of including a fundamental asset purchase, those are not in our numbers.

Arne Sorenson: Yes, the -- I think, correct me if I'm wrong, but I think our pipeline includes something like 400 luxury hotels across the globe. And it is, far and away, the biggest pipeline in the luxury space in the industry. And so, we know we've got exciting openings, which are coming down the pike and which will further strengthen our leadership in this space. We obviously want to see those units continue to come into the system. We are overwhelmingly going to depend on our organic growth and organic partners to drive those deals. But we've got a lot of good news, which is baked into the pipeline and coming down the pike.

Smedes Rose, Citigroup Inc.: And I just wanted to ask you on the international side, you brought down your RevPAR outlook a little bit from your -- from the last quarter. I mean, are you actually seeing slightly weaker numbers? Or are you just sort of being more cautious on the international front, given what we've seen since the last time you reported?

Arne Sorenson: I think it's maybe a little bit of both, to be fair. China, as we looked at it over the course of the year in 2018, got weaker with each quarter. That's really not that surprising. I think though as we speak and maybe a part of this is that the China and U.S. seem to have stepped away from the brink recently on the trade -- looming trade war. But the emanations that come out of our team in China and, to some extent, come out of our customers in China feels a bit more optimistic today than it did 30 days ago. And when you look at individual markets in China, you see a story, which is -- has got some hopefulness to it. Hainan, we called out, I think in Hainan, which is Sanya China, it's sort of China's Florida, if you will, where we must have a couple of dozen, I would guess, full-service and luxury hotels. That is partly supply and partly other factors, which have caused RevPAR to be pretty disappointing, I suppose, in that market.

But you look at Beijing and Shanghai and some other key China destinations and they continue to perform pretty well. So, while we're a bit more cautious than we would have been at the beginning of 2018, I think we remain pretty optimistic that China will be a positive market for us and continue to present exciting growth opportunities.

You go to Europe and we continue to all watch the developments of Brexit. We called out the yellow-vest demonstrations in Paris. I think Paris started fourth quarter, and France, as a whole, started fourth quarter very strong. By the time we got into December with the demonstrations and the rest, certainly, it's had an impact on leisure travel. So, all of that goes into it and I think we see some places where we've kind of had specific things that have caused us to be a little bit more modest in our expectations. And to be fair, we've also done the budgeting process over the course of the fourth quarter. So, it's not a massive shift as we see it but it's a bit more conservative.

Patrick Scholes, SunTrust Robinson Humphrey, Inc.: I'm wondering how you think about the mix in growth rates or declines for ADR versus occupancy for North America for this year. Just looking at Smith Travel sort of back of the envelope, it would appear through January and February for you folks, you're negative 1 to maybe negative 1.5 in occupancy. How do you see the rest of the year shaping up in the ADR/occupancy mix?

Arne Sorenson: Yes, I would guess that it should be nearly 100 percent rate-driven in -- I'm trying to look and see if I can lay my fingers on our January numbers, which I don't see here. But the -- I think when you look at -- just take our midpoint of 2 percent for North America, I would guess that, that will be nearly entirely rate-driven. You've got supply continue to grow in the United States at nearly 2 percent. It might be 1.8 percent or 1.9 percent, or something like that, but obviously, it means you've got to have demand grow in that range in order to have flat occupancy. And I think that's kind of what we've seen a bit in the last few quarters and probably what we'll see this year.

Patrick Scholes, SunTrust Robinson Humphrey, Inc.: Okay. And then a follow-up question. I'd be interested to hear about where you currently stand with your IMF contribution from Asia Pacific and Europe as it relates to overall IMFs, kind of percentage-wise?

Leeny Oberg: Yes, so we typically talk about this as international and North America. So just broadly, as you know, over time, we've switched meaningfully from being heavier in North America to being heavier in international. So now actually you see that we are almost not quite two-thirds from international IMFs. And obviously, Asia Pacific, with its typical contract format, is going to have a big share of those international IMFs.

Patrick Scholes, SunTrust Robinson Humphrey, Inc.: Thank you. I hope to hear more on the investor day about that topic.

Leeny Oberg: Sounds good.

Joseph Greff, JP Morgan Chase & Co.: My question relates to the North American limited-service segment, I guess, for the second quarter in a row, you posted a RevPAR decline. Can you talk about what you think has been going on there? And then as you think about 2019, how that segment performs? Would you expect it to perform outside or below the lower end of your full year 2019 range?

Arne Sorenson: Yes, I think it's a really good question, Joe. Thank you for that. And if you look at the quarterly RevPAR numbers by brand, which are in our press release, I think it's a way of illustrating your question. Take a look at Courtyard, for example, managed Q4 Courtyard RevPAR was minus 1 percent RevPAR and the systemwide Courtyard number was minus 0.2 percent, which we don't give you the numbers here but obviously implies that the franchise portfolio was probably a bit positive, and the average of those 2 things ends up being just a bit negative.

What's driving that, what's happening there? There are probably a couple of different factors. One, to the extent there is supply growth in the United States, that 1.9 percent or so in the industry, it tends to be concentrated either in this segment or the segment below it. Some of that obviously is our supply growth but our competitors are attempting to grow in upscale and upper mid-scale as well. So, you've got a bit more of a supply dynamic there. And depending on the market, that can be significant that it is in the same segment.

I think the second thing that's happening there is -- use those Courtyard's numbers as an example -- the managed Courtyard portfolio of a couple hundred hotels and change, tend to be our Gen 1 Courtyards. And so, these were mostly opened in the mid- to late '80s. They are rock-solid in terms of the construction and they are performing still in absolute terms extraordinarily well. But increasingly, they're finding themselves competing against the hotels which could be a quarter of a century younger or so. And we're doing what we can to work with our partners to make sure that those hotels get the kind of capital they need to have in order to compete well against brand-new product, or if in that market it doesn't make sense to do that, that they get ultimately, that they leave the system. And so, we'll continue to work through that. But I think both those factors are driving that. It varies a little bit by brand. Obviously, Courtyard and Residence Inn we've had the longest, and we have some of that dynamic when you look at some of the newer brands like AC and Aloft and the like, we don't have that factor working its way through the system.

Joseph Greff, JP Morgan Chase & Co.: Great. And then Leeny, can you talk about your anticipated recycling plans for this year?

Leeny Oberg: Sure. We're certainly hopeful that we're going to have additional asset sales. As you know, we don't actually have any predictions in the model. As a reminder, we've got 14 hotels that we still own. Seven of them are Legacy-Starwood, including the Sheraton Grand Phoenix. They're generally in the Americas, three down in CALA, four in North America, and then we've obviously got seven Legacy-Marriott hotels. So, the environment for the transaction -- for transactions for hotels continues to be strong. As we've told you before, as we worked our way through the Starwood assets, there were some that were very straightforward in terms of fee simple situations. And then we moved into ones that are -- have more complexities, whether it is on the labor front, whether it is from a ground lease, et cetera or frankly, being in Rio de Janeiro, whether it's economy or actually Mother Nature's events can make for challenging times. So, from that perspective, we're hopeful for asset sales this year. Don't have anything in particular to report at this point.

Robin Farley, UBS Investment Bank: I wanted to ask about credit card fees, which drove some nice upside. Just thinking about what the long-term growth rate is. I guess, your guidance is for about 10 percent this year. Is that driven more by spend or by new sign-ups? Just thinking about how much that growth rate would be sustainable once you have the rebranded credit card out there for a while.

Leeny Oberg: So, we will talk more about this at the security analyst conference, so I'm only going to talk a little bit about it today, but we will be talking about that then. Generally, it is a combination of both. Obviously, the credit card spend has to do with what's going on in the economy and general consumer appetite for spending on the cobrand cards. And when you have new cardholders sign up, there's a bit of a ramp-up if you think about it as they get up to having a normal amount of cardholder spend. So, a little bit similar to a hotel opening. So, it really is a combination of both.

Robin Farley, UBS Investment Bank: Okay. And then I have a follow-up question to the pipeline issue, and I know you'll be talking about that more at the analyst day, too. But just looking at your pipeline continues to grow but the absolute numbers of new signings, I think, peaked in 2016, it looks like, from what's in your releases. So, I guess, just thinking about the acceleration and unit growth in 2019 that you're guiding to, is that just going to be from comping the higher deletions last year? Is that also helped by -- were there may be some property openings that just didn't make it by December 31 that kind of end up driving a little bit higher in 2019 opening than what you would think but just kind of thinking about what's the -- looking at this for the longer-term unit growth there?

Leeny Oberg: So, a couple of things going on. Remember, in 2016, you were looking at the combination of kind of pre- and post-merger signings. So, as you remember, we ended up needing to take a number of those deals out of the pipeline as we moved through 2017 and 2018 to make sure that we had the right numbers of what we really thought were going to be opening hotels. So, from that standpoint, it's not necessarily a perfect comparison. But we definitely do see room openings continue to grow as we move into 2019 and 2020 with the fact that we've got, as you've heard us talk before, about delays in construction occurring rather than actually those hotels falling out of the pipeline. So, I think we do feel good about seeing continued accelerated growth of our gross room openings as we move into 2019.

Thomas Allen, Morgan Stanley: So, I enjoyed watching all the Bonvoy commercials during the Oscars.

Arne Sorenson: Me too.

Leeny Oberg: Thank you.

Thomas Allen, Morgan Stanley: Can you just -- can you talk a little bit about the strategy behind that campaign and any success metrics you've seen?

Arne Sorenson: Yes, that's a good question. I don't know that we've got metrics to give you yet except for eyeballs. And I'm actually less interested in eyeballs than I am in what it does to drive business. Obviously, the name is just out there. I think actually technically, it leaked before we announced it, and you could find some chatter about the Bonvoy name even before the year ended. And we then did announce it, but the sort of public launch, if you will, really coincided with the Oscars last weekend, which is something we've been working to get ready for, for some time. And it's obvious that what's happening here, we've got, most substantively, we are bringing these two powerful loyalty programs into one. And no longer will customers have to go through the step of having to transfer points from one program to another in order to redeem and the other program. No longer will they have to think about whether they're meeting their elite night requirements by getting enough nights concentrated in one program or another. It's now much simpler. It's one number and the breadth of choice for earning and the breadth of choice for redeeming is simple for them to grasp. And that's the singularly most powerful piece of what is happening in this space.

Now to do that, we've got to make sure that people have a brand handle to call this program by something. And we, for obvious reasons, decided not to just make it Marriott Rewards and we've decided not to just make it SPG, but we wanted to come up with something which sort of set us up to explore something new in a bit more powerful. And Bonvoy is what came out of that. We had a great deal of fun internally and with a few smart external advisers coming up with that name. And one of the funnest parts of our business, whether it's a new name for our brand, for a hotel chain or a new brand for a loyalty program is just getting together and feeling those words and trying to think about how they inspire and connect with folks. And while there will always be some folks who say, "Why did you pick that name?", I think generally, the response so far has been quite positive, albeit I think a big part of that is just we're glad we're finally at one program and we're really looking forward to using it.

We will spend a significant amount of money this year. I can't tell you what it is in dollar terms but compared to certainly what we've done in years past, we'll spend a significant amount of money promoting the program, getting it out there, making sure people know what it is called and know the value that's associated with it. And of course, that is set up and underway, so we’re excited about it.

Michael Bellisario, Robert W. Baird & Co.: Just back to the topic of market share. I think last year, you mentioned loyalty was over 50 percent of business. And if I heard you correctly, I think you just said just shy of 50 percent in 2018. Could you maybe help us reconcile that difference in what you're seeing with customer behavior and booking patterns?

Arne Sorenson: Yes, we said about 50 percent. I don't know that I've got exactly the right number in front of me. But the program is doing great, absolutely great in so many respects. By the way, one thing I didn't mention in my earlier remarks, we talked a bit about our loss of share in Q4, the strikes being the most significant reason for that. We're really gratified to see that January, our share was up meaningfully across the combined Marriott and Starwood portfolio. And it's a bit of a caution to all of us that RevPAR index is something that we really ought to look at in a longer-term frame. I think when you look at 2018 as a whole for us, we were up modestly in RevPAR index across both portfolios combined. And we -- if the loyalty program continues to perform the way we anticipate it will perform, we'll see that index number should continue to move and we'll also see that program continues to grow with the system.

There are complexities in calculating the percentage of room nights that the program distributes. One of the obvious ones is when you get into a big group house, and we are obviously much more group-focused than the industry as a whole, some groups have fairly little penetration in the loyalty space, and that's going to have some impact in those numbers. There are also some technical things about when you have a guest that signs up for a program on their first night stay, do you count that as a program stay or do you not count it as a program stay? But what we're seeing is we're growing the system -- the loyalty system at, at least the same pace that we're growing our room system, if not a bit more. And as a consequence, we think we'll continue to see, at an apples-to-apples basis, increased contribution from the loyalty program to our hotels.

Stephen Grambling, Goldman Sachs Group Inc.: Arne, you had mentioned previously some interesting stats about a much more significant number of loyalty points redemption through a smaller portion of higher-end properties. I guess, how has that played into how you think about driving the loyalty program and positioning the portfolio in the future? And would you see any -- see or sense any kind of capacity constraints if you don't grow in those higher-end properties?

Arne Sorenson: Yes. I mean, I think you can almost think of this as a bit of a barbell. You think of this almost as a bit of a barbell. The program is big obviously with 125 million members, and think about at 50 percent of all room nights, how many room nights that is being delivered by members of our loyalty program across the system of over 1.3 million hotel rooms. It is a big program and not every one of those members is identical. They are, however, all advantaged by greater opportunities through a bigger portfolio to earn points, and they are all advantaged by a bigger portfolio from which to select the redemption options. And for the prototypical road warriors who are collecting significant amounts of points, who may be staying in higher-end hotels where they collect those points, the luxury resort lifestyle portfolio is hugely attractive. But for many, the ability to stay free in a Courtyard hotel in a Midwestern market, which is near family where they're going to spend a week in the summer or where they're going for the holidays and to be able to do that for free is also a huge and really important benefit. And so, we saw in 2018 a significant increase, I think, 8 percent increase in total redemption behavior across both portfolios. And there were meaningful growth rates at both the high end and, if you will, in the select-service hotels as well. Because I think you see that play out. Generally, I think again, the breadth of choice on both earning points and redeeming points is a huge advantage, and we want to make sure we continue to drive that breadth of choice.

Stephen Grambling, Goldman Sachs Group Inc.: Great. And one quick follow-up. Are you seeing any difference in sign-ups in the U.S. versus overseas or seeing any kind of change in response to the new program by customer segments?

Arne Sorenson: No. I mean, the -- Laura's reminding me that analyst day, we will spend a good chunk of time talking about that, and we'll have the loyalty team there to give you a bit more granular detail. The -- I don't think so. The Asia, of course, membership is growing quickly as our distribution and prominence in markets like China and India grow substantially. And our partnership with Alibaba is one that we're incredibly grateful for. And we've got strong synergies between their best customers and our best customers and we're doing some things together, which are good to drive sign-ups.

We are, at the same time, while we're doing about 1.5 million new members a month, we are very much focused on signing up people who think will deliver business to us. It's not simply about how many people can you sign up, because if you're signing up folks who are really not likely to be customers in a way that's even measurable, it's probably not worth a lot of focus in terms of signing them up. So, we're running through both those things. I think generally, we were grateful that the pace has actually continued pretty healthy. Obviously, the quarter was noisy with the strikes and with the cyber event, and to continue to grow through that is something we're pretty grateful for.

David Beckel, Sanford C. Bernstein & Co., LLC: Had a -- just wanted to follow up about on your previous comment about how you're feeling more optimistic, you gave some good color there. But more specifically, I guess, from your conversations with corporate partners or corporate travel planners, do you get the sense that there is sort of like a degree of pent-up demand that's just waiting to be unleashed once some of the uncertainty in the marketplace starts to clear up?

Arne Sorenson: The -- remember, I said we're a bit more optimistic than we were a quarter ago, not necessarily that there's a pent-up demand that's about to be released out of the starting gate that dramatically changes things. I do think, and this, I think, it's probably obvious to all of you. As we approach the end of the year, partly because of trade conversations, partly because of the way the market itself was performing, I think you could feel sort of rising anxiety or maybe even a little bit of pessimism. We've now seen in January and February the market strengthen. We've seen backing away little bit from some of the trade dynamic, I think we've seen our corporate clients particularly get a little less fearful, a little less anxious. And therefore, in comparison to where we were before, it feels again a bit better. Don't over exaggerate this but it feels a bit better than it did a quarter ago. And that's what's built into our model. It is not a wholly different stronger demand environment that we're anticipating but one that we think is steady because we hear from our customers they intend to be on the road and doing the business that they need to do. And we're, of course, happy to have them come and stay with us when they travel.

David Beckel, Sanford C. Bernstein & Co., LLC: Great, I appreciate that extra color. And my follow-up, just wanted to get a sense for your ongoing negotiation with Expedia. Is there anything you can or want to comment on? Or more specifically, I guess, any deal points beyond just the commission rate structure that have prolonged this negotiation?

Arne Sorenson: No, nothing really to say yet. The teams continue to work and, as far as I can tell, make good progress so we'll bring you up to speed when the time is right.

Wesley Golladay, RBC Capital Markets, LLC: Just have a quick one on the marketing spend for Bonvoy. Will this be a big increase for the owners or will the new credit card agreement fund the majority of the increase?

Arne Sorenson: No and yes. I mean, it's -- the second question is a little bit of an oversimplification, but the -- as we mentioned, the charge-out rate for the owners, which is where they contribute to this program, has declined by 50 to 60 basis points, on average, for brands. And that's about 10 percent roughly, a little bit more than 10 percent actually of what the total cost of the program was to them. And those dollars plus dollars coming from credit card companies and timeshare companies and others who are partners of the program support the cost of the program, so we end up with the resources to market this new program and promote this new program and actually charge the owners less at the same time.

Leeny Oberg: And we also got integration synergies from putting two loyalty programs together. So, you've got, in addition to getting more funds from the credit cards, you've also got a more streamlined organizational structure there. And you put that together and as you remember, we were able to increase the benefits for the consumers, for the owners and also for the shareholders.

Wesley Golladay, RBC Capital Markets, LLC: One more quick one. For the Sheraton Grand Phoenix, when will that be completed?

Leeny Oberg: It's underway. I think it's hard to predict exactly when it is. But like most normal PIPs, you could expect that it could take the balance of this year and into next year.

Kevin Kopelman, Cowen and Company, LLC: Just had a follow-up on OTAs. They were stable in the mix in 2018 after increasing in prior years. Given this dynamic has changed, how do you see OTAs trending in the mix now for 2019 and going forward?

Leeny Oberg: Well, we'll also talk about that at the security analyst conference so we won't -- no need to get too far ahead of ourselves. I think again, as you've heard us talk about all the work that we're doing on the loyalty program through Bonvoy, which brings people through us to direct channels as well as the OTA yielding work that we've been doing, I think it's the first time in several years where that percentage has actually not increased by at least a full point. So, from that perspective, I think it's indicative of the relationship with our customers that we have. And we'll obviously look forward to continuing to do as much as we can to have our consumers book directly with us.

Vince Ciepiel, Cleveland Research Company: Hearing some mixed things from owners out there. Some would point to integration issues related to this deal. You have others call out margin benefits from reduced travel agency commissions. So, when you roll it all up, I mean, what are you hearing from owners today? And how has that feedback evolved in the last 12 months? And I guess, what are you hoping to hear a year from now as they look back on this deal?

Arne Sorenson: That's a really good question. It's obviously a really important area of focus for us. And as you all know, in many respects, our business model has two sets of customers, the customers we think of first obviously are the folks who check into our hotels or who hold their meetings there or come and take advantage of our food and beverage facilities. But the other customer is very much our owners. They are folks who are investing capital in our system or have invested substantial amounts of capital in our system. And they are keenly interested in how the top line and bottom line performance of their hotels is driven by our behavior. And obviously, one of those recent events is how does the bringing together of Marriott and Starwood impact that.

I think generally, our community would say that we have steadily been delivering cost synergies to them. We've talked this morning about the cost of the rewards program and how that's been improved. But there are other areas in procurement and systems and shared services and other things we're doing that, some of which we could do right out of the gate and some of which take a little bit longer, but they have been steadily implemented since we closed the transaction in the fall of 2016. They also, however, want to make sure we're delivering top line growth because if we can do both things, it is a huge advantage for them and ultimately for us because we're that much more attractive to compete for their capital in the years ahead. And I think to be fair, we have -- and again, this is another thing that we will look at when we look at the RevPAR performance of the Legacy-Starwood hotels when we're together in March. And there's some news there already, but the biggest news is really driven by the final merging of these loyalty programs now under Marriott Bonvoy. That, we think, is the tool that is going to drive most powerful results with our frequent travelers. And we want to be able to prove to them that we are driving the top line through that vehicle. And again, if we can do both those things, it's going to be a home run.

Vince Ciepiel, Cleveland Research Company: Great. And then just a quick follow-up on the fee guide. If I just do a simple linear addition of the 5.5 units on the 1 to 3 RevPAR guide, then when you consider that the credit card bump sounds like it should more than offset FX, what is -- is there conservatism in the 5 percent to 7 percent? Or is there anything going on with non-hotel fees that offsets that, that addition? Or is it just where we are in the cycle and where incentive fees grows? Just trying to better understand the 5 percent to 7 percent.

Leeny Oberg: Sure. So, a couple of things. One, I would definitely say I would look at IMFs. We've talked about IMFs as being low single digits in 2019, and that is a function of, as you've mentioned, part of that's FX but part of it is the reality that we've got little bit lower growth expectations in Asia Pacific than we had a year ago and when you think about RevPAR year-over-year between those two years in that continent. And then also, you've got the reality of the strikes. And that is as you move into January, while we're seeing recovery, you still had a bunch of wholesale bookings that when they were looking at booking into Q1, it was difficult to know. And so, we're going to pay a little bit of a price in 2019 from that as well. So that's part of it.

Then you've also got the impact of terminated hotels. If you remember, we actually ended up with a little bit below 5 percent growth rate in 2018, and much of that then falls into 2019 in terms of the growth. And then last but not least, we've talked about the reality that with higher labor costs, that's going to have a bit of an impact on your margins for your IMF-earning hotels.

I'm sorry. One more to add to the last point and that is that residential branding fees, we do expect they're a little bit lumpy and we actually do expect them to go down a bit next year, which is just a function of the timing of the sales of the units.

Harry Curtis, Nomura/Instinet Securities: Just a quick question on the restoration of the Sheraton brand. It would appear that you have roughly 90,000 Sheraton rooms. And what will that number probably contract to once you're done purging the system and how long will that take? And then the second question is looking ahead, what's the brand -- is the brand going to be an engine for growth and how will you change the image? And what segment will it fit in as well as is it going to be more of an international brand, a U.S. brand or both?

Arne Sorenson: All right, all good questions, Harry. The -- we are making great progress with this. I don't have it by rooms but I have it by hotels. I don't -- I would guess that these -- there's no reason these hotel sizes shouldn't be about average. But -- so they should be translatable into rooms. We have done -- basically, we figure about 150 of the Sheratons, we have either fixed or the fixes are underway in terms of renovation behavior. And fix includes getting rid of about 25 Sheraton hotels. So, of the 150, about 25 left and about 125 renovation is underway or about to be underway very quickly.

When we look at sort of the portfolio, we've got -- I'm looking at a -- let's see, what is this, I'm trying to do the math in my head here, it's about 450 hotels in total. A little less than 200 in the U.S. or North America and about 250 internationally. About 75 percent of the rooms product and public space product when looked at separately are on track to meet standards. Now that includes hotels where renovation is not underway yet but where renovation has been committed to or where the work has already been done. So that -- it's leaving about 1/4 of the portfolio, which we're still working on out of 450 hotels, that's 100-ish or 110, something like that. And so, we've -- we've got these numbers on the run and I think we're going to find that when we're looking back at this a few years from now, we'll see that there was massive capital that went into this and the average product quality of the Sheraton portfolio is meaningfully better than when we took it on. We are continuing to grow the brand even as we speak. Your question hints at this a little bit. It is probably stronger in Asia, and therefore, the pipeline's a bit stronger in Asia than it is in the rest of the world. But as we strengthen the product -- average product quality and guest service scores, which is already happening too in a material way, we'll see that the demand from our development partners for Sheraton increases as well. So, we're feeling really quite good about it.

Harry Curtis, Nomura/Instinet Securities: So, following up on that, the Sheraton brand identification is very high with customers. So, do you go on a campaign to reintroduce this? Are you gaining traction with developers?

Arne Sorenson: Well, the answer to both of those questions, I think, is yes. I mean, I think in different markets of the world, the need to prove progress is a little bit more important in terms of the development pipeline. But I think as customers see and experience improved quality in the portfolio, and as we get to a place where we've got more of it actually delivered, we will ramp up the sort of PR relaunch of the brand. A little bit dangerous to do it simply based on committed renovations as opposed to renovations that are completed and can be seen by the customers.

Laura Paugh: Yes, and we'll talk more about it at the analyst meeting undoubtedly.

David Katz, Jefferies LLC: What we've learned over the years is that every cycle is different. What we have seen in other cycles, and it doesn't necessarily play out this way, is a sort of a plethora of brands entering the system or entering the mix. You obviously have a lot and we've seen others launching quite a few brands. What are you seeing? Or are there any concerns that you would help us alleviate or highlight for us in terms of just the population of brands, which seems to be growing quite quickly?

Arne Sorenson: Yes, it's a good question. The -- I think I would focus -- I'd encourage you to focus maybe less on the number of brands being launched than on the supply growth itself. And we have talked about this before. But I don't know of a turndown in the lodging business, which has been caused by supply. They may be exacerbated, to some extent, by supply a bit depending on what that supply dynamic is, but in every instance in my 22 years, it has been driven by a demand -- a weakening in the demand side of the equation. And that is really about GDP broadly. You can look at other measures, which correlate with GDP, but it really is about how is the economy doing. And that's the principle thing, I think, I would be focused on to the extent you think about the cycle here. The number of brands is less important than supply growth. Supply growth, we've talked about before, is at average levels. We've not seen the kind of peak supply that we did in the last two growth cycles, which maybe means that to the extent we get a weakening demand environment, it might not be as bad, I suppose as what we have seen before. But again, I would still be focused on demand.

The only last thing I'd say about brands as opposed to supply in terms of rooms or hotels, and of course, you'll recognize that we've got a bias in here being an owner of 30 brands that are competing in this space. But the brand that is most important is Marriott Bonvoy because that's what binds our relationship with our customers across the entire portfolio. Now each brand hopefully says something. It's got a product definition, it's got a service definition and it schools expectations of our customers in a way that obviously hopefully, we meet but lets them sort of understand something about what they're booking within our portfolio. But it's that Bonvoy umbrella branding which is the most important thing. And I actually think if we had 35 as opposed to 30, it wouldn't be a meaningfully different story. By the way, we're not announcing the launch of five new brands this morning or even inviting you to think that, that's coming down the pike. But again, the portfolio branding is clearly the most important thing, and the more we've got choice within that or from a geographic price point and design sensibility, the better off we are.

Thank you, everybody, for your time and interest this morning. We appreciate very much your hanging with us, and of course, we look forward to welcoming you to our hotels as you travel. See you in March.

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February 28, 2019. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.