Marriott International Security Analyst Meeting Transcript

Monday, March 18th, 2019

Welcome

Laura Paugh

Senior Vice President, Investor Relations

Good morning, everyone. I am so pleased to see so many good friends here today. Welcome to the New York Marriott Marquis, or should I say Bonvoy. We are honored and impressed you joined us today, particularly the morning after St. Patrick's Day. Welcome also to everyone who is listening or watching on the webcast.

I thought I would quickly run down our plans for today. Arne Sorenson, President and Chief Executive Officer will provide an introduction for the day. Stephanie Linnartz will discuss our strategy for filling all the rooms that Tony Capuano is planning to add to our system. Tina Edmundson will address the power of our 30 brands individually and collectively as we market as Marriott Bonvoy. Brian King will explain how we market our brands through the most profitable distribution channels. Ray Bennett will discuss innovation in on-property services, which is one of our most important competitive advantages. And Dave Grissen will round out the morning discussing the future of food and beverage at our restaurants and bars around the world. I promise after watching his videos, you will be ready for lunch at about 11:30.

My apologies for those of you on the webcast. The webcast will be dark during lunch. Technology is not quite up to actually providing a decent meal by computer.

Lunch will be served in the Aster Ballroom, which is on the seventh floor. Our escalators between the sixth and seventh floor are being refurbished. Thank you, Host. So, to get to lunch either walk up to the seventh floor using the stairs in the back of the room, or walk up the non-moving escalator, or you can join me and queue for the elevator.

At lunch, Marriott executives will be seated at assigned and numbered tables. But you, our guests, can sit wherever you want. The seating chart is in your binder, so choose the table with the Marriott executive that you would most like to grill. Luncheon is on a first-come, first-served basis, so do not delay in getting to the table where you want to sit.

Our lunch today has a sustainability theme. It is being prepared by Brad Nelson, our Vice President of Culinary and our Corporate Chef, along with the culinary team here at the Marquis. For those of you who have been to any of our recent analyst days, you have enjoyed meals prepared by Brad and his team before, so I know you realize you are in for a treat. He will be explaining to you exactly what makes lunch sustainable.

Speaking of sustainability, in the back of the room, I recommend you visit with our ESG group sometime today. They can show you the impact that Marriott has made in both sustainability and social good. They have water and snacks and since we are no longer offering plastic straws, they have some reusable straws you can take with you.

We ask you to rejoin us here in the Broadway Ballroom at 12:45 as we resume our presentations with Tony Capuano, Chief Development Officer – the guy whose mission it is to add 275,000 to 295,000 rooms over the next three years.

Finally, we will end our presentation with Leeny Oberg, Chief Financial Officer, who will talk about our commitment to shareholder value and present our three-year plan. This is probably the eighth time that we have presented our three-year plan, and I have yet to meet an analyst who has indicated they would like to hear something else from the CFO.

We will start Q&A at around 2.00 p.m. Finally, in case you need to ask more questions, or you did not get enough to drink yesterday, we invite you to join us for a post-meeting reception at the newly opened EDITION Hotel just on the other side of Times Square.

Before we get started, make sure your telephone is on vibrate, while I provide a message from our lawyers. Much of what we say 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 our remarks today and in our press release that we issued this morning are effective only today, March 18, 2019 and will not be updated as actual events unfold. For those of you who are present with us, you can find a reconciliation of non-GAAP financial measures referred to in our remarks and in the press release at the back of our handout book. For those listening in, you can find both the slides and the reconciliations at Marriott.com/investor.

Let us get started. It is my pleasure to introduce our first video, which recalls our accomplishments from 2018. Thank you.

[Video]

Introduction

Arne Sorenson

President and Chief Executive Officer

Slide A-1

Good morning. Thank you all for taking the time to join us for our 2019 Security Analyst Meeting. It is great to see you all again.

We started these almost 20 years ago with a very deliberate plan to say, 'How do we tell our story to our owners – our investors – and collectively look up a little bit towards the horizon, and a little bit past last quarter's results or last month's RevPAR?' And so, we did something about 20 years ago which was arguably madness, which is to produce a three-year financial forecast of the way Marriott might perform in the years ahead.

We have been doing that now every 18 or 24 months ever since. I know many of you have had a chance to attend these conferences and we are glad to be able to tell you our story again this morning. It is important to us not only to be able to look at bit at the horizon and take a longer-term view, but also to allow you to see the depth and breadth of our leadership team.

Of course, you know Laura and Betsy and Leeny Oberg extraordinarily well. But they are not the only superstars in the company. We have a strong group of leaders, and you will get to see a handful of those this morning. Also, we have a few dozen others who are here and that will be spread around during coffee breaks and lunch time. All of them are available to you for your questions and whatever advice you would love to give us.

Slide A-2

It has been, of course, an interesting 2018 for us. I know that as we gather here this morning, one of the conversations that we have with many of you is, 'How is that Starwood integration going? Where are you in the process of pulling this together?' Questions, of course, can be asked in different ways. We think back to the 2015 analyst conference that we had. The model was so simple. We were growing RevPAR, we were growing units and using the cash that was generated from our business to drive return to our shareholders and good investment activity and delivering great EBITDA and EPS growth.

Then, of course, we decided in 2016 to close on the acquisition of Starwood. When we were last together in 2017, that transaction had been closed. And I think even though we certainly knew and all of you knew intellectually that M&A is difficult, things had been going so well out of the box that I think we were maybe all a bit deluded into thinking this is going to be a breeze. We knew that was not the case, and of course 2018, showed us some of the bumps that we could hit on the path to getting these two platforms together, some of which we will talk about over the course of the day but many of which we will not, because those bumps really were very much a part of the hard work of M&A.

We continue to believe that the acquisition of Starwood was a spectacular opportunity for Marriott and one we are incredibly grateful was presented to us at a time when most of the potentially competitive bidders were really not in the position to compete with us for that acquisition. The idea was really quite simple, of course. It was to acquire a company that would allow us to deliver for our hotel owners both top-line and bottom-line synergies. Top line, of course, we will talk about today quite a bit, driven by the loyalty program, sales force reservations platform and the like. Bottom line driven by essentially scale; but scale applied to things as basic as procurement of groceries or as elaborate as the way we can spread the cost of systems and other programs across an increasingly broad group of hotels.

With the top-line and bottom-line synergies for our owners, we knew that we would be more attractive to our owners to choose to grow with us with new unit growth. Obviously, that is good for Marriott; but we knew that that owner preference would drive particular strength in the segments of the marketplace that deliver the most value. Think about Luxury. Think about full-service hotels. Think about lifestyle hotels. Think about resorts and places where with these two portfolios together we could be extraordinarily strong.

Then, of course, we knew that we had opportunities to both sell assets while retaining long-term management contracts, simplify the balance sheet, drive overhead cost savings within the company, and ultimately return to the simple model that we talked about in 2015 at the end of all of this stronger, bigger and more profitable than we would have been had we not done the transaction at all.

I think one of the great things about the model that we will share with you today – that you have all been paging through in advance, not content to wait until we get to this afternoon – is that we see that simplicity returning. We describe a model this morning with great EPS growth, great EBITDA growth and the great simplification of this combined platform into something that is very powerful.

Slide A-3

Now, just as we thought it was not wise to stand still, our potential disruptors are not standing still. In fact, if you think just about the last week, we have seen Airbnb announce the acquisition of HotelTonight and we have seen Google talk about its new hotel booking platform, just to pick two. We are, obviously, doing everything we can to make sure that we continue to partner with intermediaries where it makes sense for us, but that we also are building a platform that gives us the kind of strength that we think we can and should have to have relationships broadly with our customers around the world so that they continue to book with us.

The OTAs are a form of intermediary, of course. And, in the best area they deliver incremental business to us, which we are very glad to have. I think particularly about the occasional leisure traveler who knows less about brands and has less reason to be a member of any loyalty program. But we also want to make sure that we are using those relationships in a way that is cost effective for us and that does not deliver business to us when we do not need it. So, we have continued to work on that in the last couple of years.

Home-sharing obviously is another interesting place. Most of us think Airbnb first, although clearly, they are not the only one. In fact, Booking has a group of home listings of roughly comparable size to Airbnb. But I think all of us as consumers have watched that business develop and seen far too frequently that the experience is not consistent. It is not branded, of course. And very much the experience that a traveler has is going to depend on the unique attributes of the host’s approach to that hosted facility. It could be issues about cleanliness, it could be issues about other aspects of that stay.

But we watched this evolve and thought, you know what? There is an opportunity for Marriott to come in and deliver something which is reliable, something which guests love, something which is connected to the loyalty program, and do something which is quite a bit more predictable and reliable. Of course, we started with that in 2018 with some activity in Europe. Stay tuned and you will see how we pursue this business in the near and longer term.

Slide A-4

I put supply growth down as a disruptor, which is maybe to some extent a little bit unfair. But I wanted to have you focus a little bit on some of the things that we are seeing in the supply landscape. Here is a ten-year comparison of various segments of the industry. You can see that Upscale and Upper Midscale have both taken share from the rest of the hotel landscape. These are United States figures, obviously.

The most obvious point that we are seeing there is that they are growing faster than the other segments, because of profitability of these models and simplicity of models. But we are seeing something else that is happening in this space, too. We are seeing increasingly a focus on design and interest in having lifestyle move into these segments of the marketplace, and we are seeing this product move into urban markets. One of the reasons, as Tony will tell you, that the development pipeline takes a little longer to open today than it did in the past. With the lifestyle brands that we have got in this space – Element, Aloft, AC Hotels, Moxy, to pick a few – we think we are positioned very well to not only compete well in this space, but to make sure that our platform is urban, is high value, and is the kind of thing that drives the aspirational side of our travelers’ business.

Slide A-5

The advantages that we continue to focus on for our guests are really in some respects not different from what we have talked about the last number of years, although obviously, it continues to evolve. We want to make sure that under the umbrella of our loyalty branding, Marriott Bonvoy just launched, we have the ability to offer a breadth of choice to our traveling guests. And that breadth of choice of course starts with brands.

Do we have brands that have distinct positioning that give a range of experiences to our customers, that give a range of price points to our customers? With 30 brands, we think we do that. We do not feel for a second as if that is too many or maybe even enough long term. Because we think that having this breadth of choice by itself, as long as the brands are strong with integrity, will allow customers to come to us and say, 'I know that Marriott is going to have what I need – whatever the purpose of this trip, however much I have to spend, wherever I am going.' And of course, that geographic distribution is also extremely important.

Also, though, we have to make sure we can continue to deliver against the operational excellence, so that the guests who experience their stays with us can leave and say, 'Marriott always takes good care of me. Marriott gives me the kind of welcome I want when I travel. They give me a clean room. They give me the kinds of things that I expect to have.'

One of the things we loved about the Marriott/Starwood merger was really we brought the operational and executional focus of Marriott, which has been something that has been in its DNA for decades, to the brand and marketing power of SPG and strength in this aspirational space in a way that allows us, we think, to really drive these strong advantages for our customers. Similarly, we focus on the kinds of advantages that drive owner preference. Here, too, it is very much a similar theme.

Slide A-6

In a way you can look at these first bullet points and think about all of them as being the quality of the brands, the quality of the product, the strength of the brand and brand positioning that an owner can sign up for. Obviously we want to make sure that we continue to drive strength. You will hear about our efforts with a number of these specific brands over the course of the day today.

But we also want to make sure that we are through execution, through scale, through focus on operations delivering the kind of financial benefits to our owners that cause them to say, without having to think about it, 'I know my returns are going to best if I have invested our capital with a Marriott-branded hotel than with somebody else's hotels.' We know we are succeeding in the brand space because so much of what we see happening in the industry looks likes folks cribbing our brand decks and doing their own versions of it. Of course, that kind of mimicry is great flattery.

At the same time, it is much harder for them to duplicate the operational and the execution focus that we have. In part, because that is in the DNA of the company and in part, because it depends on scale. So, if we can continue to deliver both of those things, we think we will continue to drive the kind of owner preference that is fueling our growth today.

Slide A-7

Starwood acquisition, of course, has strengthened us in all of these areas that are listed on this chart, many of which I have already talked about. In a sense, these are another version of the same, where scale delivers upside. Think about things like the credit card, which you will hear about today. By being bigger, we had the opportunity to participate with our financial partners and drive a program which is stronger for our guests, but also stronger for our hotel owners and for Marriott. So, that scale itself is important.

And then, the execution is as well. Think about the Sheraton brand. If we can bring the kind of execution that Marriott has been focused on for years to Sheraton and say, 'All right. Let us get the product on strategy. Let us make sure we have developed a strategy and let us make sure we are prepared to make the kinds of decisions that need to be made long term for us to succeed.'

Slide A-8

Now, before turning to just a couple of highlights of the model, I want to talk for just a minute about the way we go about doing business. We are 92 years old this year. We have for decades and decades been focused on doing business in a certain manner. There are a number of attributes of that.

One is that we are long-term in our focus. I have been at Marriott for 22 years. I am still often held up as a recent arrival because I had a job for a decade or a little bit more before I showed up at Marriott. But it is a sign of the way that Marriott views its role and its purpose. And it is that we want to succeed not only this year in 2019 – and by the way we do want to succeed this year in 2019 – but we want to make sure we are succeeding in 2020 and 2021 and 2031.

The way we are going to do that is by doing business where we invest in our brands, where we invest in our people, where we invest in the communities that we are doing business in, where we invest in doing business in a way that makes the communities where we do business stronger. I think about the environmental efforts we have had underway for the last 20 years. Twenty years ago, roughly, we started the Green Council which I have chaired from the beginning, focused on how do we make sure our operations are driving better performance in these areas? Or, you saw in the video, the human trafficking effort. We have already trained over 500,000 of our people around the world to be mindful of the kinds of things that we share.

This approach to business is something that is long-standing with us and will remain very much a focus for us as we go forward.

Slide A-9

Governance, too, is an important feature of what we do. I think, in a sense, you can look at these meetings, themselves, as an example of the way we approach all of you, our owners, and the way we approach the external environment. We have been transparent. Sometimes people would say maybe we are transparent to a fault. Occasionally, we will hear from folks, 'Why did you take us through that much detail about that change in accounting?' Or whatever it is. But we want to make sure that we are as transparent as we can be with you. Today is an example of that.

The cyber event that we suffered a couple of months ago is just further proof, I think, of the strength of Marriott in many respects. It is a big deal. It is the kind of phone call that no CEO ever wants to get, which is, 'We have bad news, and here is what has happened.' But from the beginning, the Board provided great guidance to us, and our focus was: How do we make sure we take responsibility for this? How do we make sure that we are transparent with our customers? And, how do we address this in a way that will make us stronger with our customers long term, not focused on simply trying to minimize an issue or pull a fast one on somebody in the first few months afterwards?

I think with the Board we probably have had a dozen plus calls or meetings since the end of November to make sure that they continue to be aware of all of this. Gratefully, we are seeing that in fact the data that was obtained, while still substantial, was usually encrypted and there are no signs that payment-card information of substantial quality is out there in the marketplace. And at the same time, we want to make sure that we work through this to provide the kind of transparency to our customers that will put this behind us quickly.

Slide A-10

Now, a few highlights. As with our last models, the most important inputs are the two on this page. What is the RevPAR range? And, what are you doing with unit openings over this three-year model? You will see the numbers that are here. As we have said every time, this is not guidance. It is not really a forecast. It is a range. But obviously, we have tried to provide a relevant range, and we think that is what these numbers reflect today.

From 1 percent to 3 percent RevPAR growth, if you look at the eight or nine of these that we have done, it tends to be sort of at the lower range. It reflects an expectation that the economy will continue to grow, albeit it at a fairly modest rate. And as a consequence, we will see RevPAR grow at a fairly modest rate.

Unit growth - Tony will talk about quite a bit. Big numbers. And I think he will put those in context for you compared to the last conference that we had.

Slide A-11

Speaking of which, here is how we did or how we are going to do compared to what we shared with you in 2017. And you will note here that essentially on all of these measures, with the exception of room additions, we are in the range or even a little bit above it. The model delivered the kind of performance that we thought was germane at the time.

Room additions is interesting. So even though we missed it, I think what Tony will tell you is by and large we missed it not because we lost projects, but because the projects are taking a little longer to open than we anticipated. They are taking a little longer to open than anticipated because on average, they are more urban. They are more valuable than the average room that we added in a suburban context maybe in the past. That also means that they are delivering the kind of fees and economics that help us on these other measures.

Slide A-12

Now, when we go through all of this, you will see the output. You can see here some of the very stunning numbers about the stabilized fees for these new units, as well as EPS and EBITDA growth and the continued return that we anticipate to our shareholders. Leeny will take you through this in considerable detail.

Slide A-13

All of you will ask – some of you have already asked, 'Is this aggressive or conservative? How do you think about this in the context of the external world that we are in?' I will just make a couple of comments on that. Of course, I am not going to characterize it as either aggressive or conservative. I think the questions you should ask yourself are: How do you think the economy will actually perform? And, what does that imply in terms of RevPAR growth?

I think the only other thing that I would mention is that on revenue synergies driven by repositioning of things like the Sheraton brand or the launch of the new single unified loyalty program – all the top-line kind of growth that I talked about before – by and large, we are just at the point to start that now. Having brought these loyalty programs together and having put the integration in effect behind us, we are now in the position to really test the theory which we have been pursuing from the get-go, which is by having a single program with broader choice, with the best collection of aspirational brands and assets in the industry by far, shouldn't we be able to get a larger share of wallet from our customers? Shouldn't we be able to get more loyal customers in our program going forward?

We think the answer to that is unequivocally, yes. Listen over the course of the presentations today. By and large, that upside is not in the model that we have delivered for you. We will not calculate what that upside is for you. But we are committed to make sure that we grab as much of that as we possibly can in the next few years and the years that we are going to look at in this model.

Thank you again for being here. I will be with you all day. I look forward to the conversations in the hallway and over the course of lunch. I am going to turn this over to Stephanie Linnartz, who is our Chief Commercial Officer, who is just the first of an outstanding team of leaders that you will get to see today. Thanks again, all of you, for joining with us. Roll the video.

[Video]

Driving Hotel Demand

Stephanie Linnartz

Executive Vice President and Global Chief Commercial Officer

Slide B-1

Well, good morning everyone. As shown in the video, it is an incredibly exciting time at Marriott International as we are truly now one combined company and we can do so much more for our customers. Post-merger, we now have size, scale, breadth and depth of offerings that are unrivalled in the hospitality industry.

Slide B-2

My job and the job of my team is to fill these hotels as well as the significant pipeline of hotels that are being added over the next several years. And as we do that, we are adding even more travel offerings for our customers to increase their frequency of stays and to build engagement with us throughout their travel experience.

People are travelling in record numbers and our portfolio of 30 brands and more than 6,900 properties in a 130 countries and territories suits nearly every trip purpose and travel experience desired.

Slide B-3

The global view of travel remains very encouraging. The World Travel and Tourism Council estimates that global travel will increase at a 7 percent compound growth rate from 2017 to 2027. Already, global international tourism represents 30 percent of the world's exports and services.

The UN World Tourism Organization reported that in 2018 a record 1.4 billion trips were taken across international borders. Assuming recent growth trends continue, international trips could reach 2 billion by 2030.

Rising GDP and a growing middle class have fueled this growth and particularly in Asia. In fact, one in four international trips globally now originate in the Asia Pacific region. Outbound trips from China have grown rapidly from 57 million in 2010 to 117 million trips in 2015. Encouraged by the higher number of visa-free destinations, outbound trips from China could reach 160 million next year.

Slide B-4

Demographics are also shifting and this will impact future travel trends. Gen X are entering their peak travel years and both Gen X and millennials are embracing experiences over material things. A growing middle class with rising income and a desire for experiences is fueling the travel boom.

In turn, these consumers are driving demand for more personalized products and services. Technology has also become ubiquitous, particularly mobile devices. Expectations for personalization and comfort with technology create unique opportunities to engage with customers throughout the travel journey.

Finally, as Arne mentioned, non-traditional competitors like OTAs and Google are increasingly edging into the broader travel landscape, making the competition to capture customer attention and share of wallet fierce.

Slide B-5

Now, as a truly combined company, we have more to offer our customers than we did two years ago and we have strengthened our competitive position. First, we have the broadest portfolio brands in the industry. Second, our size, scale and distribution are unmatched. Third, our powerful direct booking channels deliver a large portion of our occupancy, our website, our mobile app, voice reservations and sales organization. Last, and perhaps most importantly, our new travel loyalty program, Marriott Bonvoy, provides a single powerful face to the consumer.

Slide B-6

So, let me start with our brands. We regularly track guest satisfaction and we use those grades to improve performance. This keeps us, our owners and our franchisees focused on product quality, renovations and service delivery.

Ray Bennett, our Chief Global Officer for Global Operations, will share how technology investments in customer knowledge and hospitality innovation are ensuring that we deliver high quality customer service in our hotels.

For example, every year we partner with a third-party research firm to conduct a very competitive consumer survey in the U.S. to better understand portfolio advocacy. In 2018, nearly 14,000 consumers were asked to identify which family of hotel brands they have recommended to others. Results show that Marriott International's portfolio of brands is preferred over our closest competitor by 4 percentage points. Tina Edmundson, our Global Brand Officer, will speak next about the power of our brand portfolio.

Slide B-7

With hotels in 130 countries and territories, we can now say we are just about anywhere a traveler would want to go and we offer products at multiple price points.

As a result of the Starwood acquisition, our portfolio is more skewed towards higher price points and quality tiers compared to the competition and we have already seen an improvement in our share of wallet.

Our partners at Visa track market share of spending at hotel and home-share companies by Visa customers in the United States. While Marriott has 15 percent of the U.S. market as measured by STR rooms, our share of wallet is 25 percent and up about 100 basis points in 2018.

The size of our distribution and depth and breadth of our offering means that our guests never need to look beyond our portfolio to find a great hotel that suits their needs and desires. This in turn makes Marriott Bonvoy even more valuable for our members, as I will discuss in a moment.

Slide B-8

So here is how the Starwood acquisition adds scale to our sales and marketing strategy.

Based on our current guidance, we estimate that property-level revenue at our hotels worldwide will total nearly $82 billion in 2019. To be clear, this is property-level hotel revenue including rooms, food and beverage and everything else. This includes both company-operated and franchise hotels. This is not our fee revenue. All our hotels contribute a percentage of revenue to fund the loyalty program, reservations and above-property sales and marketing, and our strategic partners contribute meaningfully as well. Our company-managed hotels and some franchise properties also contribute to the cost of our above-property market sales force, which drives both group and transient business from small to mid-size accounts in those hotels. Remember, our sales and marketing is not funded by Marriott International.

So, with 1.3 million rooms today and each hotel contributing its share, as well as our strategic partners, we estimate that these funds will total roughly $5.5 billion in 2019 and will continue to grow over time.

The $5.5 billion reflects funding of our loyalty program, the most powerful marketing program in our arsenal, including the cost of redemptions. Also included is funding for sales, marketing and reservations and our mobile sites and our websites.

With the addition of Starwood, we are able to concentrate our substantial and growing funds for new initiatives that are effective and innovative. We believe our leverage in sales and marketing and loyalty programs uniquely positions us ahead of the competition. We have also made changes to the way our hotels contribute funds to these programs, to make it simpler and easier for hotels to forecast. Leeny Oberg, our Global Chief Financial officer, will speak more about this new model this afternoon.

Slide B-9

So, we target the right customers to drive the greatest profitability for each hotel and our channels are organized to sell the way the customer wants to buy. On a global basis in 2018, 33 percent of our room nights were purchased through retail rates, 21 percent under a group rate, 20 percent under special corporate negotiated rates, 18 percent from transient discounts, largely during seasonally slow periods, 4 percent were loyalty redemptions and 4 percent were contracts, such as airline crews. Obviously, these percentages vary considerably from hotel to hotel and continent to continent. Again, across the system, we estimate about two thirds of our occupancy is business and about one third is leisure.

Starwood's revenue management strategy tended to be more discount oriented. In fact, prior to the merger, Starwood granted special corporate rates to nine times more accounts than Marriott. Post-merger, we added many of Starwood's most valuable accounts to our global sales efforts, but we also moved a significant portion of the special corporate business to higher retail rates.

Slide B-10

We drive bookings to our direct channels to ensure that we both maximize profitability and customer engagement. In 2018, nearly three quarters of room nights were booked direct, either through voice, digital or on-property sales. Last year, 28 percent of room nights were sold through digital channels, including our website and mobile apps. Year over year, room nights sold through our digital channels increased 11 percent. And we are very focused on enticing our customers to book direct with us through a variety of member-only benefits.

We are also rolling out our enhanced reservation system, which will allow customers greater control over room selection when booking direct. Brian King, our Global Officer for Digital Distribution, Revenue Management and Global Sales, will share how technology investments are making it easier and more seamless for guests to engage with us as they shop and book.

Slide B-11

Our new travel loyalty program, Marriott Bonvoy, is how we are bringing our products to customers in very meaningful and engaging ways. Marriott Bonvoy was born from the most awarded loyalty programs in the hospitality industry, bringing together the best benefits from Marriott Rewards, the Ritz-Carlton Rewards and Starwood Preferred Guest. Our new brand name draws inspiration from the simplest of expressions, the French bon voyage, a romantic salutation wishing you good travels.

Marriott Bonvoy goes beyond points and perks. Our loyalty program now includes the largest and most extraordinary collection of hotels. In addition, our members also have access to amazing benefits, including exclusive opportunities both on and off-property and through our incredible partnerships. In the months and the years ahead, we are going to offer our guests even more and at the center of it all is Marriott Bonvoy. We call this the new language of travel.

Slide B-12

With Marriott Bonvoy, we took some of the richest loyalty programs in the industry and made the combined program even richer. On average, members earn 20 percent more points for every dollar spent in the new program. And we brought SPG's amazing elite benefits, such as Suite Night awards and Ambassador Service together with the rich base earning rates of Marriott Rewards. Truly the best of both.

And we did not just invest in members. We made loyalty more economical for our owners and franchisees' companies by globally reducing the charge out rate of our program by 50-60 basis points, making our development deals even more attractive.

And later this year, we are launching peak and off-peak pricing to drive redemptions to low occupancy dates when it is most advantageous to our hotels and also allowing our members to experience great destinations for less points. Overall, this should drive higher occupancy year-round and increase retail bookings at peak times.

Slide B-13

At year-end 2018, Marriott Bonvoy had 125 million members worldwide. Since the beginning of 2018, we have been adding on average 1.5 million members every month. Our members stay more. Last year, our members with 50+ nights grew by 9 percent and those stays were largely through our low-cost direct channels. Member room nights represent roughly half of all room nights sold in 2018. Our members are also highly engaged. With the growing number of properties to choose from, loyalty redemptions increased 8 percent last year.

Slide B-14

Nearly half our members reside in North America, where we also have the vast majority of our co-brand credit card holders and spend. But enrollments are growing most rapidly outside of North America. In fact, in 2018 nearly two thirds of total enrollments were from markets outside of North America.

One market that is driving significant growth is Asia Pacific. Today, Asia Pacific represents 10 percent of our hotels but approximately one third of our Marriott Bonvoy membership. About 60 percent of these Asia Pacific members, or 24 million, are from China.

This is driven in part through our joint venture with Alibaba. In fact, since we formed the JV, we have enrolled 5.2 million new members in to Marriott Bonvoy and in November 2018, the same month as China's Single's Day, we enrolled nearly half a million members and we are just getting started with Alibaba.

Slide B-15

Our elite members are especially critical to our business. Our elite levels start with members who stay a minimum of ten nights in a year. Our ambassador elites stay over 100 nights and spend more than $20,000 a year with us. Last year, our elites accounted for 77 percent of paid member room nights and a third of our elites stayed at more than five of our brands. That is the power of our loyalty program.

We expected the broader brand portfolio would enhance Legacy-SPG satisfaction and we are really starting to see this trend. In fact, over the first two months of 2019, Intent to Recommend and Elite Satisfaction scores amongst Legacy-SPG elites have increased approximately 100 basis points year over year. And we are also seeing the power of our brand portfolio with elites. As one example, nearly one half of elite customers who stayed at W Hotels in 2018 also stayed at Courtyard sometime during the year.

Slide B-16

Currently, our members choose Marriott Bonvoy to earn and redeem on hotel stays. Looking ahead, we expect they will want to use Marriott Bonvoy throughout their entire travel experience. The more offerings we have through Marriott Bonvoy, the more users will visit the site and the more committed they will be to our program. We believe that this will further enhance the value of Marriott Bonvoy and drive an even greater share of wallet to our hotels.

Slide B-17

Another way that we engage our members is through our newly rebranded Marriott Bonvoy credit cards with Chase and American Express. These new cards are designed with the premium and the Luxury segment in mind, along with small business. Later this year, we also will launch a no-fee Marriott Bonvoy credit card for members.

In 2018, with the benefit of renegotiated terms with our financial partners, credit card branding fees delivered $380 million and this year we expect that number to reach between $410 and $420 million. Not only have these renegotiated terms delivered higher branding fees but they have significantly lowered credit card processing costs at our hotels, to the benefit of our owners.

Slide B-18

Card holders are more engaged, and they are more loyal, and they are more likely to book direct. In fact, last year co-brand cardholders booked approximately three times more room nights at Marriott International than non-cardholders. In 2019, we expect to market the Marriott Bonvoy co-brand card more aggressively than in the past, both on-property and through our various distribution channels.

Slide B-19

Ideally, a loyalty program should attract frequent engagement and be sticky enough that members would not think of looking anywhere else. As we think about increasing frequency and stickiness, we are considering other travel related offerings that we might incorporate into Marriott Bonvoy. This poses an opportunity to meaningfully enhance Marriott Bonvoy beyond our core hotel business.

Slide B-20

Over the past year, we piloted Tribute Portfolio Homes, Marriott's take on home sharing. We offered curated homes and we set standards for home design, functionality, location, service and overall safety and security. With service provided by a third-party operator, we began the pilot last April in London with 200 professionally managed homes and we have expanded to now over 400 homes in three additional markets, Lisbon, Paris and Rome.

Slide B-21

The average length of stay was 5.3 nights compared to our typical hotel stay, which averages 1.5 nights.

The business is complementary to our hotel business. Largely appealing to leisure customers, the average size of the home that we offered in the pilot was two bedrooms and over 85 percent of the guests were already members of our loyalty program.

With the advantage of Marriott's quality assurance and the ability to earn and redeem Marriott Bonvoy points, we also realized a premium price for our home rentals. The power and reach of Marriott.com as well as Marriott's reputation for service quality, again added with the power of Marriott Bonvoy, shows that we have growth opportunity in this space.

I should note that this type of offering does not add meaningful profit to the financial model that we are sharing today. However, we do believe that it will add value to the Marriott Bonvoy program.

Slide B-22

Marriott Bonvoy presents a platform for offering other travel services to customers, targeted to increase, again, member frequency and member engagement. In many instances, we are already connecting customers to services but we believe there are additional opportunities, including more experiences, again both on and off-property, car rentals and other services.

Slide B-23

Currently, we offer 120,000 experiences in 1,000 global destinations through Marriott Bonvoy moments and this number grows to 200,000 offerings when you include partnerships that we have with concert and event providers. Members will soon be able to book these experiences though the Marriott Bonvoy app, while enjoying the benefits of earning points. This includes popular travel activities such as sightseeing tours, museum tickets, culinary experiences recommended by local experts.

We also offer our members the chance to bid on once in a lifetime experiences through our exclusive partnerships, spanning sports, entertainment and music. For food connoisseurs, there is unparalleled access to world-renowned restaurants and chefs. For music lovers, we take you front and center at sold-out shows like Coachella and the New Orleans jazz fest. We also recently announced a global partnership with Manchester United, one of the most popular teams in the most popular sport in the world, giving us access to a global community of soccer followers.

Slide B-24

So, Marriott Bonvoy marks a significant moment in the 90-year history of our company, evolving from a loyalty program to a travel program and personifying our vision to be the world's favorite travel company. We debuted Marriott Bonvoy in a 90 second commercial during one of the most watched events of the world, the 91st Academy Awards. For the first time, ABC allowed a company to integrate a full commercial segment into the actual structure of the show. As you will see here, the ad showcases how Marriott Bonvoy unifies the value that we bring to our guests and is the new way we will present all of our travel offerings to the world. Let us take a look.

[Video]

So, I would now like to introduce Tina Edmundson, our Global Brand Officer, ten year Marriott veteran and my good friend. Tina.

Brand Strategy

Tina Edmundson

Global Brand Officer and Luxury Portfolio Leader

Slide C-1

Thank you, Stephanie.

Slide C-2

Marriott International now boasts the world's best portfolio of hotel brands. Brands that create deep emotional connections and brands that are distinct and varied to suit the various travel mindsets of all of our guests for their different travel needs.

Slide C-3

Marriott International is the category leader in luxury, lifestyle, convention hotels, collection hotels and resorts. We now have an offering that is compelling and leverages the unified strength of our new loyalty program, Marriott Bonvoy, and with the most comprehensive global footprint, our guests should never have a reason to look outside of our portfolio, no matter where or why they travel.

Slide C-4

There is a symbiotic relationship between our brands and Marriott Bonvoy, as strong brands equal a strong loyalty platform. The brands and the loyalty program are complementary, interconnected and interdependent.

But it is not about just the number of brands, it is about brands that guests love, brands that deliver on the promise and are coveted, guests seek them out. Our brands are the emotional hook that pull guests into the loyalty program. We are then able to expose them to the breadth of the portfolio, surprising and delighting them with brand options and often introducing them to lesser known brands, encouraging trial and new experiences.

Slide C-5

In this new brand portfolio, we have been particularly focused on putting several sets of brands into what we call swim lanes. In other words, internally we have strategically grouped our brands not only to gain synergies but also to further differentiate them, ultimately defining who they are designed for and the experiences that they deliver.

Now, on the screen behind me, you will see the eight most obvious swim lanes. These are brands that are similar or occupy the same tier, price point or consumer benefit. All 30 brands are not on this slide. Again, this is highlighting brands that share the same swim lane. Now, having this structure in place helps us more clearly determine our strategic priorities for each brand to ensure that each has a distinct identity.

Now, a great example of this is the Ritz-Carlton and St. Regis. Both brands target the global affluent traveler. However, they are each positioned against a different psychographic and therefore, they offer different experiences in terms of product, design, facilities, signature rituals and services. So, for example, at St. Regis, to support the positioning of 'live exquisite,' we bring the brand to life via signature services like the Bloody Mary ritual, unexpected events like Midnight Suppers and Butler Service, which is a true brand differentiator in the luxury space. At Ritz-Carlton, we create indelible moments by focusing on delivering anticipatory services through our ladies and gentlemen and creating long-lasting memories and storytelling through design.

So, you can see that having a clear structure in place helps us more clearly determine our strategic priorities for each brand to ensure that we keep them distinct and desired.

Slide C-6

Now, to stay competitive and to continue to drive preference, it is important to keep all of our brands fresh and relevant with regular updates and renovations. Sometimes, a brand transformation is required. Let me now share a few transformation highlights.

Slide C-7

Marriott hotels, our signature brand, has hit its stride. We can claim victory when it comes to rolling out the highest performing guest room in the brand's history. We continue to see outstanding performance from renovated hotels in North America.

Now, of the 119 hotels that have received the full Marriott Modern case good renovation, in the first year post we have seen positive momentum in guest satisfaction scores pertaining to Room Overall, Bath Overall and Intent to Recommend. Additionally, on average, renovated properties in North America have seen a RevPAR index increase of more than seven points. The transformation is starting to positively move systemwide ADR and overall brand health for Marriott Hotels in North America.

Now achieving these results has helped to dramatically accelerate renovation phase for Marriott Hotels in North America. Frankly, when owners see this data, the tough conversations around CAPEX improvements are infinitely easier and more productive. And, in collaboration with Host, we are transforming several of our flagship hotels in major markets, which should further the uptick in overall system performance.

Slide C-8

Sheraton has just started its transformation journey and based on the success of Marriott Hotels' transformation, we are confident about its future. Sheraton is our third largest brand in both rooms and fees globally, and it is our most geographically diverse. It is also the top fee earner in Asia Pacific. Sheraton adds considerably to our overall scale and effectively reduces cost for all of the hotels in our worldwide system. It offers upside opportunity for us and our owners.

The brand work over the last year has focused on every part of the business. We worked with our owners and franchisees, including the newly formed Sheraton Franchise Advisory Council, where we gained alignment on brand positioning, operations improvements and design strategy.

Now, early in the integration, we rolled out our guest satisfaction program, which was critically important to improve accountability around brand standards. Our new Sheraton strategy celebrates the art of gathering in a lively hotel lobby. Its design is fresh and modern, and its operating platforms create a welcoming lobby experience.

Slide C-9

Finally, we have also looked at how we have expressed the brand to consumers, culminating in a new logo you see here on the left side of the screen. The Sheraton logo saw the last major overhaul in the late 1970s. We are launching this new logo to signal change to owners, operators, guests and our Sheraton associates.

Slide C-10

The results indicate we are already on our way. More than a quarter of Sheraton's portfolio is already under or has committed to renovation and we removed 26 hotels globally since the acquisition. While Sheraton's RevPAR index was less than 100 upon acquisition, we successfully increased RevPAR index and have kept it above 100 two years in a row. We are very optimistic about the future of Sheraton.

Slide C-11

Aloft was the first brand that introduced a lifestyle experience in the select-service space. But as we shared with you two years ago, there were some challenges and opportunities we wanted to quickly address to improve the experience and importantly, to accelerate growth. The design was a bit dated after not having been refreshed since the launch of the brand almost ten years earlier. Compared to similar size properties, we also knew the hotel cost too much to build, which we quickly addressed post-acquisition.

Slide C-12

Now, in order to be poised for significant growth around the globe, Aloft went through design and food and beverage refreshes, addressing owner and operator feedback. With Aloft's new eclectic design, we are seeing healthy owner satisfaction, rooms growth and higher RevPAR index.

Slide C-13

Element provides a growth opportunity for us and filled a white space to attract a lifestyle-oriented longer stay traveler. This brand also offers owners an opportunity to grow in markets where we were already represented with other extended stay brands. While the brand had great consumer sentiment, it was just not attractive for the owner community. Cost to build was significantly higher than our Residence Inn brand and there was not a focused sales solution to drive more profitable longer stay business. In addition, guests told us that the food and beverage experience needed significant improvement.

Slide C-14

So, our work on the brand resulted in a new prototype, lowering the cost to build and introducing Studio Commons, which is a communal living option that better competes with home sharing alternatives. Then we leveraged our knowledge from our other long-stay brands, which increased extended stay room nights by 5 percent. For these brands, replacing short-stay occupancy with longer-term occupancy meaningfully decreases operating cost and enhances profitability for the brand overall. Lastly, we improved the food and beverage experience meaningfully.

So, combining these improvements with our significantly lower charge out rates to owners for our loyalty program has improved the value proposition for the brand to our owners. And, the pipeline has grown by 50 percent since acquisition.

Slide C-15

2018 marked 20 years since W Hotels exploded onto the New York City scene and kicked off an industry-wide revolution in branded lifestyle hotels. W has enjoyed unprecedented success for many years since.

Slide C-16

Most of our guests have very favorable experiences with new W properties around the world. But, in many U.S. hotels, the product and the service no longer meets their expectations. This has been an opportunity we have quickly addressed and prioritized.

Slide C-17

We are driving hard with owners the need to invest in renovations with over $200 million already committed in North America for renovations post-merger. We are launching a comprehensive new training and brand culture framework globally, refreshing the W experience while preserving and amplifying the disruptor ethos of this iconic brand. We are working to replace strategic exits, like W New York and W Las Vegas.

Slide C-18

Luxury is another exciting growth opportunity. Global wealth is projected to rise by nearly 26 percent over the next five years, reaching nearly $400 trillion by 2023. Since 2000, the number of millionaires has tripled, while the number of ultra-high net worth individuals has risen fourfold, making them the fastest growing group of wealth holders.

Now overall, the luxury market grew by 5 percent last year, with Chinese consumers accounting for a third of the total improvement. Even more than others, there is a shift taking place with luxury consumers as they move toward experiences that bring happiness and wellbeing over luxury goods.

Slide C-19

Now, Marriott International, with the largest Luxury portfolio in the lodging business is in a unique position to cater to the affluent traveler of today and tomorrow. The diversity of our brands is our core strength and it means that we are able to meet the needs of the global luxury traveler, no matter their mood, desire or trip purpose. Our Luxury brands today represent only 9 percent of the portfolio in rooms but account for 18 percent of our gross fee revenue.

Slide C-20

Luxury is so vital to the success of all of our brands. As you know, our Luxury brands have a huge halo effect on our portfolio and here is where loyalty pays off. Our Marriott Bonvoy members have more options around the world to redeem their points at over 400 Luxury hotels and 200 in the future pipeline. No other hotel company comes close to what we offer.

Slide C-21

We always keep the guest at the center of the experience, which is critical as we continue to refine and define individual brand experiences. Our services, technology, innovations and most importantly, product design, which is the physical manifestation of the brand, continues to be responsive to social and cultural shifts that impact changing guest behaviors and desires.

Slide C-22

In closing, to create awareness around the richness and diversity of our hotel offering in the independent space and the Marriott Bonvoy platform, I want to share a marketing campaign focused on our three collection brands, the Luxury Collection, Autograph Collection and Tribute Portfolio. Now this campaign shows the amazing destinations and experiences that these brands offer, while enticing guests to explore the breadth of our portfolio through Marriott Bonvoy. Take a look.

[Video]

I would like to now introduce Brian King, Global Officer, Digital Distribution, Revenue Management and Global Sales.

Sales & Distribution Strategy

Brian King

Global Officer, Digital, Distribution, Revenue Management & Global Sales

Slide D-1

Thank you, Tina. Hello. I am here to share with you how our sales and distribution strategies lead to our strong performance.

Slide D-2

The goal of our sales and distribution strategy is to deliver a channel portfolio to our hotels that maximizes sales and profitability. We do this by building a strong foundation of direct channels and working strategically with intermediaries to source new customers, expand Marriott's reach and drive incremental business.

We understand that different customers book in different ways. While a minority of U.S. guests favor booking with intermediaries, such bookings are much more popular in international destinations. But no matter where a customer books, we approach each interaction as an opportunity to make that customer fall in love with our brands and participate in Marriott Bonvoy.

For transient business, our website and app are the lowest cost channels, while Customer Engagement Centers handle telephone calls, delivering that personal touch guests need making a reservation or for a special occasion. The Marriott sales team is organized to serve our B2B customers for group business or those seeking special corporate transient pricing for the upcoming year. Our sales team may enter into contracts for groups that will stay at our hotels next week or potentially a decade from now.

The complexity of this distribution landscape, our objective is always to remain focused on growing our most profitable business while delivering that authentic and friendly service that Marriott is known for.

Now, you can see all the potential points of sales our customers have but let me discuss how we maximize our pricing power via our yielding strategy, otherwise known as revenue management.

Slide D-3

Revenue management is the art and the science of driving the highest possible price at the lowest possible cost.

Typically, this means we manage our mix of business, accepting lower rated business when occupancy is soft and then removing discounts when we have strong demand. Managing this mix is done on a hotel by hotel basis with highly sophisticated pricing and forecasting tools.

For many hotels in the industry, revenue management is focused still on managing only the transient business mix. A decade ago, Marriott began revenue managing our group business as well. Even though group rates can be lower, we are able to manage food and beverage, AV and other group-related revenue streams, driving additional sales. The combination of group and transient revenue management results in strong hotel profitability.

Last year, we extended this strategy to consider the cost of our channels in our revenue management models in North America. As a first step, we looked at online travel agencies. OTAs can deliver meaningful occupancy but during strong demand periods, our direct channels do so at a much lower cost. During peak occupancy periods, we have automated the process to actually reduce our OTA business. While there was probably, modestly, a slight negative impact on RevPAR in 2018 due to this strategy, we did see an increase in direct bookings, lower distribution cost and stronger house profit margins at our hotels.

To quantify this, on average, customers who book on our direct digital channels are 6-9 percent more profitable than an OTA booking. This translates into a cost savings between $18 and $26 per booking, assuming about an average length of stay of 1.5 nights. We refer to this process as a net revenue approach and we are considering expanding this to other channels we have on our platforms.

Slide D-4

Direct channels enable us to build close relationships with our transient customers, meeting planners, as well as corporate travel managers. These powerful channels provide our hotels with highly brand loyal customers at the lowest possible cost, enabling us to deliver the best possible service. And direct channels provide us an opportunity to extend Marriott hospitality to guests during off-property experiences and upsell other products, including tours and activities, for example.

Slide D-5

Our system continually invests in our digital channels to make sure they are easy to use, intuitive and that they are up to date across multiple devices for any type of shopping and booking experience for our customers.

Prior to the Starwood acquisition, about a third of Marriott room nights were booked through Marriott digital channels worldwide, compared to 20 percent at Starwood hotels. At that time on a combined basis, digital represented 26 percent of our room nights. Now, in just two short years, our digital share of room nights has increased nearly 30 percent at a combined basis. In 2018 alone, the total revenue from digital increased 13 percent, with most of it coming from our mobile app.

In fact, the share of business booked in our mobile app has doubled in the past two years. We have been encouraging our guests to book direct, at the same time yielding OTA business during busy times when our hotels have enough demand to fill themselves. Our OTA channel represents only 13 percent of total global bookings and has not grown in the last year. Combined, Marriott's digital storefronts, which include our brand websites, hotel websites, mobile apps, brought in $21 billion in global room revenue in 2018.

By giving meaningful benefits to our customers who book direct, we are increasing our opportunity to deepen engagement with our guests and build a lifetime relationship with them as they enroll in Marriott Bonvoy.

Slide D-6

The message here is very, very simple for our customers. Members who book direct get more.

Here is where it becomes real for benefits and offerings. They are very tangible the moment they book, when they stay with us or through the shopping process and all the way to checkout. For example, they see member-only rates available when shopping directly with us. These are the best rates guaranteed, period. We back this up with our look no further guarantee offer.

As Stephanie mentioned, merger synergies are allowing us to enhance our direct channels. For instance, we have been able to invest in a very sophisticated monitoring tool to ensure our hotels are fully compliant with our core pricing strategy. For members, booking direct gives them benefits such as free Wi-Fi, mobile check-in or mobile check-out, keyless entry and mobile service requests. Mobile check-in gives members the ability to alert the hotel exactly when they are arriving so the room is ready for them. This is available at all of our hotels nearly globally today.

Members can also use mobile key, allowing them to skip the desk entirely and go straight to their room. This feature is available at 1,400 hotels and is slated for systemwide deployment by the end of 2020.

And lastly, mobile service requests let members order room service or request housekeeping just with a touch of a button on their phone. And most importantly of all, they get their Marriott Bonvoy points. All these features are making the experience for our customers increasingly frictionless while engaging them exclusively with our direct channels.

Slide D-7

In addition to our direct channels, we are also acquiring customers through a very valuable joint venture with Alibaba's travel brand Fliggy, which we started in August of 2017. As previously mentioned, the Chinse travelling population is growing rapidly both inbound as well as domestic travel. The JV is a great opportunity for us to engage these travelers. We are able to draw on the resources from both Marriott and Alibaba. The joint venture has already created a new portal on Fliggy with enhanced functionality, enabling Marriott to benefit, our customers to benefit directly from Alibaba's amazing reach into the Chinese population. This joint venture manages Marriott's storefront. It markets to our customers directly, to Alibaba's huge database, and it uses Alibaba's IT and marketing infrastructure. Soon, this structure will provide a link between Marriott Bonvoy and Alibaba's loyalty program to exchange points.

The Marriott store front on Fliggy offers Marriott member rates and the opportunity to earn Marriott Bonvoy points. In 2018, via our joint venture, we have enrolled 2.7 million new members into Marriott Bonvoy and year to date through February, we have already enrolled 600,000 members.

A 2018 McKinsey report noted that Chinese outbound tourism has become the biggest tourism segment in the world. Despite noise around trade, we continue to see strong demand in markets in China, considering this demand globally and specifically in the Pacific rim. We are properly positioned to win these customers, working with this dominant digital player in China.

Slide D-8

It is also important that we continue to offer customers non-digital touch points, enabled by best in class technology but always with a human touch. In our 22 Engagement Centers around the world, we serve 60 million customer contacts each year through voice, email or chat. The calls and requests that come into these centers are usually more complicated and require that white-glove touch, like booking special occasions.

This past year, we implemented a new service delivery model to enable associates to better handle all types of these requests, from reservations to loyalty to customer care. One call does it all for this team. The strategy here avoids the nuisance of being transferred. It provides a better customer service experience and it reduces our operating cost.

Slide D-9

So, in addition to our Customer Engagement Centers, we have a three-tiered sales structure: Global Sales, Market Sales and Property Sales. Global Sales manages our largest and most high value B2B relationships. These include corporations, associations, third-party planners, like travel management companies or travel agencies. This team provides contracting for both group as well as transient business.

Market Sales manages smaller, mid-market accounts above-property and currently covers 16,000 accounts in over 30,000 buying locations in North America alone.

Property Sales handles local customers, maybe purchasing a catering only event or a destination wedding, for example.

For very large, complex, group-oriented hotels, we retained a significant sales effort on-property. In the United States over ten years ago, Marriott began sales transformation, which was designed to cover more accounts by pulling sales people above property and lowering our cost at the same time. This change in deployment was driven by a customer desire to have one primary point of contact in our sales organization versus multiple sales managers for multiple hotels calling on them.

It also gave us the ability to call on more accounts. This was a complicated change of people, processes and systems. It required several years to complete this massive redeployment. Because of Marriott's deep direct sales expertise and stable sales infrastructure, we were able to move Starwood Hotels into this structure in less than 18 months following the post-merger event.

Today, our Global Sales organization is a 600-person strong team spanning 100 countries speaking at least 52 languages today. Last year, Global Sales closed $22 billion in total property sales.

Slide D-10

Marriott has the leading supply of hotels that actually cater to large group business. We call this our Convention and Resort Network. In the Americas alone, we have 110 hotels boasting 105,000 rooms and over 10 million square feet of meeting space. Marriott has 44 convention hotels open each with at least 1,000 rooms. As a matter of fact, in the last five years, we opened four new-build thousand-room hotels: the Houston Marriott Marquis, the Chicago Marriott Marquis, the JW Marriott Austin and the Gaylord Rockies.

The Gaylord Rockies is our newest large convention hotel, which opened earlier this year with 1.1 million room nights already on the books through 2023.

Slide D-11

Thirty-six percent of our group business comes from association, another 36 comes from corporate with the balance coming from government and social customers.

We also reduced group intermediary commissions in April of 2018 from 10 percent to 7 percent. And our largest competitors have followed or stated their intention to do so. Like our approach with our transient business, we encourage meeting planners to book direct so we can give them the best possible service.

With high occupancy and limited capacity at our group hotels, meeting planners are booking earlier to ensure they have the best selection of meeting space and hotel accommodations. In 2018, nearly 20 percent of our group revenue bookings for our Marriott Legacy hotels were for stays three years or more. Compared to 2015, these very long-term bookings comprised only 13 percent of group bookings.

Slide D-12

Technology is also enabling us to better manage our customer relationships, reducing costs, upsell at multiple touchpoints and truly personalize the guest experience. For the last several years, we have been focused on CRM deployment and activation. This new technology gives us a unified 360-degree view of both the B2C and B2B customer globally. By late 2018, we have deployed this technology in all of our hotels, our Customer Engagement Centers, our sales teams as well as our digital channels.

For example, the technology enables something relatively simple as preferred pillow preference, foam or feather. No matter what hotel you go to, we will honor that request. For more complex data elements that are important to our group customers like knowing their exact meeting space requirements as groups rotate through properties around the globe. We anticipate the scale and connectivity of our new CRM will result in more revenue per customer throughout their travel experience as we continue to increase the level of personalization and more services and upsells that we can offer these customers.

Slide D-13

As you can see, Marriott has tremendous direct channel strength. Post-merger, our scale and synergies give us more investment capacity in this area. The goal of my team is always to deliver the highest value guest at the lowest possible cost to our hotels.

Now it is my turn to turn over to my colleague, Ray Bennett, our Chief Global Officer of Worldwide Operations. Thank you very much.

Operational Excellence

Raymond Bennett

Chief Global Officer, Global Operations and Managed by Marriott Select Brand

Slide E-1

Thanks, Brian, and good morning everyone.

Slide E-2

Hotel operations. The service experience that we deliver on-property remains core to our business. I want to spend the next few minutes discussing our focus on driving operational excellence across our portfolio and then close by sharing some of the innovations we are deploying that will redefine service for the hotel industry and set a new standard across the travel sector.

Marriott is built on a nine-decade legacy of operational excellence. The on-property service we deliver remains a competitive advantage for two reasons.

Slide E-3

We have well-established service standards that allow us to scale our systems and knowhow across the breadth of our portfolio. Hotels that join our system gain access to our operational expertise, processes, tools and training.

Our performance is measured by our customer feedback, in particular our guest Intent to Recommend scores. We have already begun to measurably improve service quality at Legacy-Starwood Hotels improving Intent to Recommend by 130 basis points in 2018 alone while also raising the bar at Legacy-Marriott properties.

Slide E-4

The one brand that we are laser focused on is Sheraton. We are applying Marriott's operational standards addressing housekeeping, maintenance and upkeep, and F&B quality. In some cases, we are also making changes with hotel leadership. As a result, we saw significant improvement across each of our main service indicators in 2018 including 150 basis point improvement over 2017 in Intent to Recommend. In the first two months of this year, Sheraton's Intent to Recommend is up an additional 150 basis points. While Sheraton still requires renovation and improvements to product quality as Tina mentioned earlier, our efforts to improve service are having a more immediate effect.

Slide E-5

Our second competitive advantage is our ability to deliver branded experiences. While our hotels benefit from our consistent service standards, we also tailor our approach to meet each brand's positioning and personality. This yields the distinct flavor and image for customers and higher returns for our owners. Let me share a few examples with you.

Slide E-6

The first is Aloft beverage and food. Aloft Hotels move to their own beat with bold, open and vibrant environments that bring people together. While Aloft introduced a modern lifestyle attitude to limited-service lodging, its food program was not well executed, nor did it meet customer expectations. In 2018, we launched a new program which drove a 5 percent improvement in B&F sales and a 28 percent improvement in B&F profit per room.

Slide E-7

The second example is the refresh of Courtyard Bistro. Even with our own legacy brands, we are relentlessly focused on improvement. Courtyard is for the ambitious and enterprising guests who see business travel as a driver of personal fulfillment and personal growth. With Bistro, we upgraded food offerings and elevated the eating experience with wine tastings and signature cocktails. And we are seeing significant increases in food and beverage sales.

Slide E-8

The third example is M Club, our elevated concierge lounge program for Marriott Hotels. Marriott Hotels foster guest ingenuity by helping to harness the sparks of inspiration that travel creates. We offer spaces and experiences that keep the mind balanced, sharp and inspired. The M Club redesign embraced this positioning of the brand. The redesign moved the club from a high guest room floor to a more visible lobby location. We increased its size and style. We added state of the art technology and great food and beverage offerings that are available 24/7.

The result was higher guest satisfaction scores among our elite guests including increases in executive lounge satisfaction and Intent to Recommend. The M Club move allowed us to add guest rooms back which contributes to higher hotel profitability. These three examples demonstrate the sweet spot for operations. They each drive branded experiences, at the same time delivering value to our owners.

Mr. Marriott recently told a story from his first days leading the hotel business for the company. He asked his father, 'Do you want me to drive guest experience or do you want me to make money?' Mr. Marriott Sr. responded, 'If you can't do both, then why are you here?' We are still here today because we excel at doing both and we get better at it every year.

Slide E-9

Now, let us turn our attention to the work we have underway to put control of the travel experience in the hands of our customer. The following enhancements deliver value to our owners from their investments in our existing mobile program. Our mobile app, which we recently updated and deployed as part of the Marriott Bonvoy launch is central to the customer experience.

For operations, the work in this area is focused on giving customers greater control over their hotel-based experiences and wherever possible, give them the ability to "skip the desk."

So, what does that mean? "Skip the desk" is about empowering our customers to travel with us on their terms. Today, there are four components to "skip the desk": check-in; check-out; mobile key, which Brian mentioned earlier; and mobile guest services, which is the ability to chat live between our guest and the hotel. These digital services enable customers to define critical elements of their on-property experience even before they arrive at the hotel.

This year, we will expand our innovations in this space to include three enhancements – our Airport Shuttle Tracker, Self-Service Arrival Kiosk and Mobile Dining. Our new Airport Shuttle Tracker allows members to view the real-time location and wait times for the shuttle on their mobile device. If you have ever landed at a busy airport and waited for a ride, you have experienced this friction point first hand. In 2009, it may have been okay to call the hotel, request a shuttle and rely on an estimated arrival time. In a world where travel is becoming frictionless, we should not have to loiter curbside on the lower level of LAX speculating about when the next airport shuttle should arrive.

Our next "skip the desk" enhancement is Self-Service Arrival Kiosk. This allows non-members to check-in using a kiosk in the lobby and obtain their room keys. Not only does this enable a streamlined arrival for non-members, we expect it to provide clear operational efficiencies and drive Marriott Bonvoy app downloads and usage.

With the Marriott Bonvoy app on a non-member's mobile device, we have created a new opportunity to drive enrollments and direct bookings. We plan to deploy kiosks to more than 100 hotels in North America this year.

Also in 2019, we will accelerate the deployment of Mobile Dining, giving customers the ability to place F&B orders and have those orders delivered to their room or to a poolside lounge chair or packaged for carryout to a meeting across town. We will launch Mobile Dining at more than 200 hotels in North America this year and complete pilots in other regions around the world. We have already seen a 15 percent increase in orders with guests spending 25 percent more.

In addition to the "skip the desk" enhancements, another friction point we have eliminated is signing on to high-speed internet at our hotels. Auto-authentication is a benefit now available to Marriott Bonvoy members. They can use their personal device to seamlessly connect to any of our hotels' wi-fi networks whenever they are in the hotel and whether they are staying overnight or just spending a few hours with us in the lobby.

Part of knowing our customers is also remembering them and their devices as they travel from one location to the next, whether it is from their guest room to a meeting room or from a Courtyard in Cleveland to the St. Regis in Doha. This work is a continuation of our focus on enabling our customers to use their personal devices throughout their hotel experience. They can already connect their devices to entertainment systems and they can use their Netflix accounts to stream programs on their in-room televisions.

These enhancements enable us to deliver on-property experiences that are the physical manifestation of the promises of our brands including Bonvoy. Each service experience from delivering the basics to giving customers greater control builds on the previous one, creating a multiplier effect.

Slide E-10

Now, let us talk about our most important guests, our Marriott Bonvoy Elites. As Stephanie mentioned, they account for 77 percent of paid member room nights. They are passionate about travel and their experiences at our hotels drive their loyalty. For these customers, every night they spend with us is one night they spend away from family and friends. For them, we must create that hero moment, the moment that rewards their loyalty. It begins with the genuine thank you for choosing to travel with us. It is about honoring a late check-out when your last meeting of the day runs long. It is also knowing that a suite upgrade during that business trip is good but giving you that same suite when you are on a long overdue family vacation is the best Bonvoy experience.

As operators, we are focused on delivering these personalized experiences. It is our ability to make an elite customer's experience unforgettable that results in an unbreakable bond with our brands.

I have shared our plans for delivering branded experiences, putting the customer in control and creating personalized travel experiences for our elite customers. At the heart of all of this is service. It remains our competitive advantage. It is at the core of our promise to our customers, our owners and ourselves. It is a promise that we have kept for over 90 years and it will be one that will continue to guide us in the future. Take a look.

[Video]

Thank you. Now I would like to introduce my boss, Mr. Dave Grissen.

Future of Food & Beverage

Dave Grissen

Group President

Slide F-1

Good morning. Well, you have all been sitting for a while so I am going to remind you, I have that coveted spot right before lunch. So, we are almost there and I get to talk about food and beverage or as Ray said, B&F, R&B. I will explain all that to you as we go along.

But food and beverage is big business at Marriott. We are not only the largest hotel company in the world but we are the largest hotel-based restaurant and bar company. Food and beverage, of which our restaurant and bars or R&B are a part, employs nearly half of all our Marriott associates, each focused on delivering exceptional guest experiences, sales, and results, cementing guest loyalty and making food and beverage inseparable from the company's DNA, which is critical to our growth.

We believe we have an opportunity to recast our future, leverage our roots in food and beverage and utilize this experience to drive growth and new relevance. In today's world, it really starts with talent. Let's take a look.

[Video]

Slide F-2

Our opportunity is huge. This is a look at our global system portfolio as of the end of 2018. More than 400 Luxury hotels, about 1,600 Upper Upscale full-service hotels, non-Luxury, non-lifestyle hotels – brands like Marriott, Renaissance and Westin. Roughly 200 full-service lifestyle hotels – that's our Autograph Collection and Tribute Portfolio. And 110 convention and resort network hotels. This group includes our Gaylord hotels and Marriott Marquis. It is important for us to move from a one-size-fits-all to smart platforms, specialized expertise and solutions by brand, by market, and by hotel.

From an R&B perspective, we must cultivate twin passions for rooms and food and beverage with a disproportionate focus on restaurant and bar.

Slide F-3

Today, we have an opportunity for outsized impact, leveraging our size and scale to elevate our brands and our company.

In 2018 for our global managed portfolio, we earned $12.9 billion in food and beverage revenue. This includes meetings and events, $6 billion of which was restaurant and bar revenue. We had 127 outlets around the world that earned more than $5 million in revenue each. And finally, systemwide, we had 29 Michelin star outlets.

Slide F-4

Our continued success as a travel company hinges upon our success in food and beverage. Dynamic and deeply experiential, food and beverage breathes life into our spaces, our hotels and our brands. It is a gateway to new relevance and earnings growth since each restaurant and bar is a platform for entrepreneurship enabling our best and brightest and most creative talent to deliver experiences and distinguish our brands.

Cultivating passion as both a hotel and food and beverage operator ensures our near-term profitability and our long-term growth. While taking advantage of our platform strength and scale, our focus remains on customized solutions and original offerings that evolve as dynamically as our guests.

Slide F-5

We are focused on creating experiences that keep our customers coming back and drive returns for our shareholders. We intend to offer locally relevant drinking and dining experiences that captivate, experiences that people talk about.

Our focus areas for 2019 include revenue growth. We know that driving customer volume and topline performance is key to our food and beverage business. Space transformations, creating new builds and renovations that reflect an independent-minded restaurant and bar mentality. Elevated experiences that are meaningful for our customers, both locals and travelers, owners and our associates. And we are launching a talent artisan movement. As you saw, we will attract and be a magnet for the best food and beverage professionals in the world.

One of the most exciting things we did last year to highlight this incredible talent, we hosted an Americas-wide cooking and bartending competition in 2018 called Masters of the Craft. Let us take a look at the video.

[Video]

Slide F-6

Also in 2018, we laid out bold ambitions to transform 50 restaurants and bars and scale the impact in learnings across the Marriott portfolio. We set out to create and captivate R&B experiences designed by Marriott for our customers and owners through a set of 50 high-priority outlets across the globe. These became 50 real-life innovation labs. We want to show our owners how great R&B can be achieved through focus, talent and smart investment. We want to prove that the investment works. Great R&B drives customers and returns for our business. We understand what makes these experiences great so they can be replicated and scaled across the 50 and ultimately, across the portfolio. We are at the beginning of the journey. These projects started in 2018 and continue to open over the course of 2019. Let us go to a few examples.

Slide F-7

Little Fib was one of our projects that opened last year. The space has undergone a re-concepting and redesign. We created a feature bar with signature offerings. The restaurant gives a nod to the rich history of Nashville through food, music and libations. Also, our large Johnny Cash wall with neon is a showstopper. Early results in the first four months after reopening show a 2.4x revenue increase and nearly double the number of customers.

Slide F-8

The Charlotte City Center Marriott reopened a couple years ago as the future of Marriott Hotels. It set the direction for the brand. We re-concepted the public space with three relevant outlets meant to bring the local community in. They have been hugely successful. Revenue was up significantly from before the redesign. But most importantly, RevPAR index for the hotel has increased 14 percent, meaning those restaurant outlets drove the impact and the vision for that hotel.

Slide F-9

Our EDITION brand is focused on innovative, unique restaurant and bar experiences. This slide shows some of the awards the restaurants in our Sanya EDITION have raked in. Out of 417 hotels in the Sanya market, the EDITION holds the top five spots, which means our five outlets all are at the top of the list in Sanya.

Slide F-10

The Clock Tower restaurant at the New York EDITION here in town received a Michelin star in 2018 and again in 2019. In continues to be a popular spot for everything from celebrity celebrations to New York Fashion Week events.

Slide F-11

The Bangkok Marriott Marquis Queen's Park boasts Michelin star chef Akira Back. It is rated five stars on TripAdvisor and it is the number 25 restaurant in Bangkok. That is out of 11,400 restaurants in Bangkok.

Slide F-12

Also at the Bangkok Marriott Queen's Park, ABar is a cool sophisticated cocktail bar that blends the mystery and magic of a Victorian London with the gritty edge of 1930s America. It was featured in Condé Nast Traveler, fabulous space.

Slide F-13

Back home here in Fort Lauderdale, farm-to-table waterfront restaurant Burlock Coast at the Ritz-Carlton is inspired by the Prohibition Era complete with its own specialty rum room. This re-concepted restaurant is redefining the luxury eating and drinking according to local and international publications such as Eater and Harper's Bazaar. Since the renovation, the restaurant has more than tripled annual covers yielding 152 percent increase in total revenue in the second year.

Slide F-14

Deemed one of Chicago's best rooftop bars according to Thrillist, Raised at the Renaissance boasts a modern American bar with a food menu and surprising twist and breathtaking views of the city's skyline and the Chicago River. Raised was inspired by the idea of an urban gardener, sourcing all of its ingredients within 200 miles of the hotel. This new concept has been a huge hit amongst guests, which has resulted in a 4.5-star rating on TripAdvisor. Overall food and beverage revenue performance after renovation outpaced the same period last year by almost 75 percent and continues to see really strong performance.

Slide F-15

Our newest hotel for our EDITION brand is the Times Square location. The grand opening for this hotel was held last Tuesday night. It was a star-studded event, which include a performance by Diana Ross. The Terrace Restaurant is the first in Times Square with a Michelin star chef, our own John Fraser.

The hotel also includes the Paradise Club with lighting by Paul Marantz who actually did Studio 54 and the New York Eve's ball. It includes a 36-foot 8K LED screen behind the stage, one of only three ever made. We can broadcast what is happening in the Paradise Club to the 17,000 square-foot sign outside the hotel in Times Square.

After we wrap this afternoon, we will be hosting a fabulous experience across the street at the EDITION Times Square in Garden East. The team will be serving cocktails and will have a variety of food stations for you to enjoy. And the sales team will be available for anyone who wants a tour of the hotel.

So now, we are going to shift to what you all came here for which was lunch I am sure. We have a fabulous opportunity our Vice President and Corporate Chef, Brad Nelson will be hosting. While we are passionate about food, we are also passionate about sustainability. Through our Serve360 program, we want to do good in the world. So today's lunch will feature delicious food made from sustainably sourced ingredients. Now, to get there, you can head up the stairs on both sides of the back of the room. You can walk up the escalator or you can take the elevator up to the Astor Ballroom on the seventh floor. Thank you very much.

Driving Economic Value

Tony Capuano

Executive Vice President and Global Chief Development Officer

Slide G-1

Good afternoon and welcome back. I am Tony Capuano, Global Chief Development Officer for Marriott. And I am thrilled to tell you, I just celebrated my 24-year anniversary with the company.

I have the enviable task of overseeing a group of 120 developers around the world who are singularly focused on driving the value of Marriott through new unit growth. As you read in our January press release, 2018 was a record year from an organic new unit growth perspective.

As you saw in the video, our development team signed long-term contracts for 816 new hotels last year, representing over 125,000 rooms, and we opened a record-high 494 properties with more than 80,000 rooms around the world. As you will hear from Leeny later today, new rooms are one of the most important drivers of Marriott's earnings growth and enterprise value.

Accordingly, I will share with you a historical perspective that supports the company's compelling new unit growth and describes some of the most important growth initiatives that will drive our expanding global footprint into the future.

During our last Security Analyst Conference, I discussed our goal to drive economic value, not just rooms growth. Over the course of my presentation today, I will share a variety of analyses to highlight an obvious truth that the value of rooms can vary significantly and that an understanding of these relative values is critical in evaluating a company's overall growth metrics.

Slide G-2

In our time together today, I will speak about the reasons that Marriott drives such strong owner and lender preference for our portfolio of brands. I will describe our current global distribution in terms of both scale and quality and provide some competitive context to this data. I will also highlight some of the key drivers that we believe will accelerate our growth into the future. And finally, I will review our 2019 to 2021 growth outlook.

Slide G-3

As all of you know, Marriott's core business model is fueled by rapid new unit growth with a group of well-capitalized and highly entrepreneurial owners and franchisees. Our pace of future growth is largely determined by the quality of the relationships we have with that community. Thankfully, we sit across the table with them every single day and have tremendous insight into the factors that drive their investment decisions.

In fact, since the last Security Analyst Conference, we have signed nearly 1,600 management and franchise agreements. Our insights as to what drives owner preference are not based on intuition or assumption. They are insights gained through thousands of conversations with our most important growth partners around the world.

Slide G-4

Our owners and franchisees are bold and aggressive. They expect and demand a great deal from their brand partners. Over decades of negotiations with this impressive roster of partners, we have identified the key elements that drive owner preference.

Beyond simple contract terms, these elements can be classified into two simple categories. First, those factors that drive topline revenue and second, those that boost bottom line profitability. If we deliver on those expectations, our owners return again and again to expand their Marriott portfolios.

This morning, you heard my colleagues demonstrate how our powerful brands, scale, operating strengths, and loyalty program are making Marriott more attractive to our guests around the world. That same portfolio of brands is also highly profitable for our owners. And this broad and powerful brand lineup offers that owner community a breadth of choice that gives them the opportunity to meet their growth objectives without ever looking outside the Marriott portfolio of brands.

Furthermore, our revenue engines not only drive guests to our hotels, they do so by favoring the most profitable guests and minimizing the cost of that guest acquisition.

Our loyalty program, Marriott Bonvoy, is significantly more attractive than competitor programs and costs less for owners. Owners benefit from our substantial and growing scale with savings from procurement, to negotiated third party contracts, to shared services.

Scale also applies to technology investment, which is increasingly important in today's competitive environment. Affiliation with the Marriott system provides our owners access to technology and innovation that they could simply not afford to create on their own.

Finally, our culture of innovation continues to drive premium owner returns whether through design, operating or structural innovations like our new program services fund which Leeny will discuss during her remarks.

Slide G-5

This powerful combination of Marriott's top-line drivers and bottom line cost savings coupled with our unique and comprehensive approach to account management drives lender preference and in turn drives even stronger owner preference.

Now admittedly, the concepts on the prior slide are likely claims put forth by all of our global brand competitors. Rather than take my word for the impact of these factors, I would like to share just a few facts about the owner and franchisee relationships we have across the globe.

If you start on the left of the slide, you see 70 percent of our portfolio of open and signed pipeline projects is held by owners with multiple Marriott properties. In fact, about one third of our open and signed pipeline is held by owners with more than ten Marriott Hotels in their portfolio.

And finally, when we signed the Starwood merger, we knew intuitively we were providing our owners with a broader group of brand alternatives to help them grow their companies. Just two years after the closing of the merger, over 100 of our owners and franchisees have signed deals for brands from the opposite pre-merger parent company whether Marriott owners signing Starwood deals or Starwood owners signing Legacy-Marriott brand projects.

Slide G-6

Now, for the purposes of today's conference, I finally wore Laura down and she is going to let me use a few military references, which she hates. Let us turn to the war for global growth and it is a war. And it is a war being fought on two fronts. Let us call the first front a battle for scale.

You have heard both Stephanie and I talk about the wide-ranging benefits of scale that drive global brand companies to seek broader footprints. Less talked about is the second front, the battle for quality. Given the significant economic implications, it is odd that this front is less discussed. From an economic perspective, this is a battle focused on driving premium property revenue and the associated fees through deliberate and thoughtful growth strategies.

What I will attempt to accomplish this afternoon is to use a few simple metrics to evaluate the competitive landscape in terms of both scale and quality. In an effort to offer an objective and relevant set of comparisons, we have relied on just three sources of data: STR year-end 2018 data, competitor data from their public filings and our own internal Marriott data. I hope I will demonstrate this afternoon that the merger with Starwood cemented our leadership on both the scale and quality fronts and also added strong brand platforms that will drive additional growth for years to come.

Slide G-7

So, let's start with scale. As you all know, Marriott enjoys the largest footprint in the industry. Our lead in scale is growing rapidly as we benefit from the largest pipeline and the most rooms under construction around the world. So why do we care so much about scale?

It offers significant value for both guests and owners. Our broad distribution offers the right product in the right locations for our guests. The ability to meet all of our guest travel needs within one system drives loyalty – loyalty that is greatly enhanced by the power of Marriott Bonvoy. And finally, scale allows us to drive the revenue and margin advantages that build owner preference and enables us to invest in industry-leading technology platforms.

As you look to the slide, we show the five largest global hotel companies. Marriott enjoys a sizeable lead in both current system size and signed new-build pipeline with nearly 1.7 million rooms, about a 36 percent premium over our next largest global competitor.

Slide G-8

This next slide highlights our relative market share by continent and on a global basis. The data includes both operating hotels and signed new construction pipeline hotels. As you can see, we have leading market share in both North America and Asia while taking second place in Europe, the Caribbean and Latin America and the Middle East and Africa resulting in a sizeable global lead for Marriott.

Leading market share is a powerful and enviable position. From a development perspective, keep in mind that our market share, while stronger than our competitors, is still relatively modest. And it includes the footprint of our 30 brands. I like to think about this market share data as the best of both worlds. Our leading global market share is significant enough to ensure global recognition and to drive portfolio loyalty. It is modest enough, however, to offer a long and compelling runway in terms of our future growth opportunities.

Slide G-9

This next chart illustrates our extraordinary organic signings trend. Despite leading global market share, 2018 was the most productive organic growth year in our company's history, further illustrating this notion of a long and compelling runway for future growth. As you can see, we have grown steadily since 2012 and 2018 was the sixth straight year of record-breaking signed organic deal volume for the company.

Now as you have seen in the last couple of slides, we enjoy an enviable position in terms of our scale. As I mentioned in my opening remarks, total rooms is certainly an important metric in evaluating growth among the global brand companies. As each of you know, however, each of the rooms that Marriott and its competitors offer from an existing footprint and pipeline perspective generate varying level of fees and value.

Slide G-10

To truly evaluate the relative value of rooms growth, let us turn to quality concentration. The first metric we looked at is simple to understand but tremendously revealing – 2018 average fees per room. This was a metric we evaluated for the first time during the last Security Analyst Conference. The data is provided by each of the companies in their year-end public disclosures and the math is straightforward – total fees divided by average total room count during the year.

Analysis of average fees reveals that Marriott continues to lead its next closest global competitor by about 20 percent and our second closest global competitor by about 60 percent.

Why are we commanding such a significant premium in terms of average fees per room? Simply stated, Marriott is heavily concentrated in both the highest quality tiers and the highest RevPAR markets while driving premium contract terms that result from our strong hotel performance and our global RevPAR index of 110 percent.

Slide G-11

Let's turn to a deep dive on distribution by quality tier for respective combined system size and signed new-construction pipeline. Now, there is a lot going on on this slide. What it shows is Marriott and each of its global competitors graphed based on the percentage of their current and future footprint by STR quality tier – Luxury, Upper Upscale, Upscale and then we have combined all the tiers below Upper Midscale since Marriott does not compete in the Midscale and Economy tiers.

As illustrated, among its large-scale global competitors, Marriott enjoys the highest concentration within these valuable top tiers. And the variation in value potential is quite significant. To provide context to this point, we compiled 2018 global RevPAR data from STR for each of the quality tiers.

If you go to the box on the left side of the slide, you see that the global 2018 RevPAR for Luxury was $190. It was $120 in Upper Upscale, $90 in Upscale and drops all the way to $56 for the blended tiers below Upscale. To create an apples-to-apples comparison among the big global brand companies, we calculated a metric I will call Weighted Average RevPAR or WAR. This metric uses the global industry RevPAR for each chain scale classification multiplied by each company's percentage distribution within each tier to create a Weighted Average RevPAR dollar amount. Marriott leads the industry with a WAR of over $109, about 17 percent higher than its next global competitor.

Slide G-12

We expect our lead in the most valuable quality tiers to continue to grow. When we look at our global pipeline, this time by number of properties, against those of our global competitors, the data supports this expectation. As you can see in the Luxury tier, our pipeline exceeds the next three competitors combined. In the Upper Upscale, our pipeline exceeds the next two competitors combined. And in the Upscale tier, we again exceed the next three competitors combined.

Slide G-13

As we continue to try to understand Marriott's significant average fee-per-room premium, we next look at relative concentration in the highest RevPAR submarkets. As you see on the slide, we looked at concentration in the top 100 RevPAR submarkets across the globe and also in North America. The top hundred global RevPAR submarkets achieved a 2018 RevPAR of $218. This level represents a 57 percent premium over the average 2018 RevPAR of just $139 in the second highest hundred submarkets. As shown in the chart, Marriott has double the concentration of its next closest global scale competitor in these valuable markets.

Similarly, in North America, the top hundred submarkets achieved an average 2018 RevPAR of $158, which is 67 percent higher than the average 2018 RevPAR of $95 that was achieved in the next hundred submarkets. Again, Marriott has a 72 percent higher concentration in these high-value markets as compared to its next closest scale competitor.

Now, before we leave this slide, it is worth noting despite our meaningful and growing share in North America, we signed nearly 70,000 organic rooms in North America in 2018, more than in any year in our company's history.

Slide G-14

We have demonstrated that our rooms have higher average fees. That premium is driven in part by the fact that our rooms are more concentrated in the highest quality tiers and more concentrated in the highest RevPAR markets. We believe these premium fees are also enhanced by our thoughtful, disciplined approach to deal making.

We aggressively negotiate for stable, long-term contracts. For the 816 deals we signed last year, the average initial term of contract was 21 years. The average length of territorial restriction was just 4.3 years and only 1 percent of those 816 deals featured across-brand territorial restriction.

We are able to drive premium terms and fees based on the powerful performance of our brands. It should be noted that as we do deals around the world, we assess the value of every transaction by calculating its net present value. We use NPV to quantify the value impact of critical factors such as term, termination rights, fee structure, any Marriott investment and a myriad of other relevant risk factors. Given Marriott's focus on driving value, it should come as no surprise that we avoid the trap of compensating our transactors for simply adding rooms. In fact, half of our developer incentive compensation is tied to this NPV metric. This structure ensures consistent application of our long-term value-focused deal-making philosophy.

Slide G-15

Now, we talked a little bit about this at my lunch table. To be sure, hotel brands can grow without capital but their growth may be in less attractive locations with lower value brands and less attractive terms. Working without capital can leave considerable value on the table.

I mentioned earlier that since our last analyst conference, we signed about 1,600 deals. Less than a quarter of those deals included some measure of Marriott investment. Even accounting for those modest levels of investment, on average, the deals with Marriott investment generated about a 50 percent NPV per-key premium over those deals where we did not invest.

Slide G-16

Now that we have talked about our leadership in scale and quality, I would like to turn to some of the reasons we are so optimistic about the prospects for our future rooms growth. Now as I do so, with nearly 7,000 opened hotels and almost 3,000 in the pipeline, it is not surprising to occasionally hear questions about a dirty word called saturation. It does however seem a bit odd to us given that we just completed our sixth straight year of record deal production.

Rather than rely on intuition, however, we did our best to try and empirically evaluate the runway that exists around the world for continued Marriott growth.

Again, according to STR, there are 1,750 identified submarkets, which currently have at least one branded hotel in one of the top four quality tiers. If you assume there may ultimately be potential for supply in each of those tiers, that would suggest that there could be 7,000 market-scale opportunities around the world. About 40 percent of those opportunities in North America are currently untapped by Marriott. Outside of North America, the number of untapped markets rises to about 75 percent. And the sheer volume of raw opportunities is significantly enhanced by Marriott's proven strategy of multi-brand growth within a given submarket. In fact, in those submarkets where Marriott is currently represented, over 70 percent feature multiple Marriott Hotels within the same chain scale.

Slide G-17

Now, there are a whole host of opportunities to drive our future growth. Today, given my limited time, I want to focus on six particular focused initiatives.

Slide G-18

The first is the expansion of our Marriott select brands internationally. When asked where I might find the next 7,000 hotels, I always start my response with an enthusiastic description of the opportunity to accelerate the growth of Marriott select brands outside of North America.

From a consumer perspective, we are seeing an increase in demand for these products. They appeal to today's global traveler especially in urban markets where they do not always require full-service amenities but want a quality experience and a brand they trust.

From an owner and franchisee perspective, the more modest development cost, attractive operating margins and growing institutional appetite for assets in this tier are driving strong developer interest around the globe.

Today, we have a broad and compelling suite of select brands. This includes mature brands such as Courtyard, Fairfield, Four Points and Residence Inn as well as newer lifestyle select brands such as AC, Moxy, Aloft and Element.

We have taken a number of steps to accelerate the growth of our international select brand portfolio. Mirroring our North American model, we have deployed dedicated select-service development resources across both Europe and Asia. And the efforts are paying significant dividends.

As shown on the slide, our inventory of international select hotels including both open and pipeline properties has grown from just 218 in 2009 to over 1,150 at the end of last year. The mechanisms we have used to foster that growth are also shown on the timeline from the launch of AC in 2011 to our latest multi-unit Fairfield program with Sekisui House, which represents Fairfield's entry into the Japanese market.

Slide G-19

In addition to absolute deal volume with Marriott select brands, we have focused heavily on product innovation across this portfolio. Our owners are increasingly attracted to the construction and operating efficiencies that result from combining multiple Marriott brands in a single integrated project. We have an industry-leading portfolio of these multi-branded properties with 98 open and another 144 in the pipeline, highlighted by our opening just last month of the company's first tri-branded project in Nashville which features an AC, a Residence Inn and a SpringHill Suites.

In addition, we have opened 28 modular construction projects and have another 13 contracted and in production around the world. Modular construction offers meaningful opportunities for cost savings and much shorter construction timelines. The AC Marriott by NoMad here in New York currently under construction will be the tallest modular hotel in the world.

As we look for opportunities to grow Fairfield more broadly in secondary and tertiary markets, we are developing new smaller room-count prototypes. And finally, we continue to leverage the latest technology, including proprietary predictive demand analytics, to target growth opportunities in the right markets for our select brands. This is a significant competitive advantage.

Slide G-20

Now, as you all know, conversions have always been an important part of the growth story for Marriott. They start generating fees more quickly than new-build projects, and offer unique opportunities to enhance hotel performance, particularly in a weaker economic environment.

While we consider conversion opportunities across the entire brand portfolio, we have specifically cultivated a group of five brands that are particularly well suited for conversions, across multiple quality tiers. These brands include our three soft brands, the Luxury Collection, the Autograph Collection and the Tribute Portfolio, as well as Four Points and Delta Hotels.

The graph on the slide shows the strong growth trends for each of these brands from 2011 through our 2021 forecast. To further enhance the attractiveness of these conversion platforms, we have added dedicated resources within each of our continent teams to respond quickly to owner requests and work efficiently with those owners through a streamlined property improvement plan and pre-opening process.

The performance potential of conversions is maybe best illustrated by our recent experience with the Autograph Collection. Across our North American portfolio, 12 months after converting to Autograph, the average RevPAR for the 30 converted franchise hotels was 22 percent higher than their average RevPAR for the 12 months prior to their conversion.

Slide G-21

Now, throughout today's presentation, you have heard about the amazing work that the organization has done to complete the Starwood integration. We have fine-tuned the positioning and alignment of our 30 brands. We have worked to reduce costs to owners by reengineering Legacy-Starwood prototypes. We have completed our loyalty and reservation system integrations, reduced loyalty charge-out rates and implemented the Program Services Fund.

We have seen promising early results in terms of both quantity and quality. There has been a 24 percent increase in the pipeline for Starwood brands since the merger date, today reaching nearly one third of its existing system size. At the same time, we have applied Marriott's deal-making philosophy to the Legacy-Starwood brands. This application has resulted in a nearly 60 percent increase in average NPV per key for deals completed during calendar 2018 versus those done at the tail end of 2016.

Slide G-22

You heard Tina talk a bit about our Luxury Lifestyle portfolio, consisting of the EDITION and W brands. They generate premium ADRs and tend to drive higher average fees, reflecting their outsized F&B performance. These brands also lift the consumer perception of our overall portfolio and build loyalty with younger, more affluent customers.

2018 was a great year for the EDITION brand. We doubled our portfolio, with openings in Bodrum, Barcelona, Shanghai and Abu Dhabi, and we expect to reach more than 25 locations by 2023. You heard Dave mention the location for our reception this afternoon. We hope you will join us at our ninth EDITION hotel, at 3:00 pm today at the Times Square EDITION.

As Tina also referenced, 2018 marked W Hotels' 20th anniversary. By 2023, the brand is expected to grow its global footprint to around 75 properties.

Slide G-23

Now, in addition to our traditional hotel pipeline, we continue to seize opportunities to leverage our extraordinary brand equity in adjacent businesses. Our most notable brand extensions to date have been branded whole-ownership residential and our new Ritz-Carlton yacht collection. As you see on the slide, Marriott is the largest hospitality-branded residential company in the world, representing about half of this market globally. As of year-end 2018, our portfolio included 89 open residential projects in 17 countries and territories with another 70 in the pipeline. These properties generate powerful list-price premiums, they often enable luxury hotel development, and they give our most loyal guests the opportunity to truly live the lifestyle of our brands.

Finally, as you may have read, the first Ritz-Carlton yacht is under construction and scheduled to be completed at the end of this year. It will set sail on its inaugural voyage in February of 2020, and our goal is to begin construction on the next two yachts later this year.

Slide G-24

So where do we go from here? As we look to the future, let us start with Marriott's global pipeline.

Slide G-25

To state the obvious, the pipeline is the foundation from which construction starts and, ultimately, openings emanate. As I mentioned earlier, at the end of Q4 the company had a record pipeline of about 2,900 hotels and 478,000 rooms. Most notably, about 214,000 of those rooms are under construction. Q4 of last year was the 26th consecutive quarter of growth for the Marriott pipeline. Our pipeline is about half franchise and includes 25 new countries and territories. The pie charts at the bottom of the slide further slice and dice the Marriott pipeline. The status chart shows that 45 percent of this pipeline is under construction. Again, an encouraging indicator supporting our rooms growth forecast. As we discussed earlier, the quality pie chart reminds us that 80 percent of our rooms are in the top three Smith Travel quality tiers.

Slide G-26

Now, as you know, rooms under construction drive openings, so we wanted to provide some competitive context to this important barometer of growth. As you see on the screen, we have more rooms under construction than any of our scale competitors, both in North America and globally.

Slide G-27

This next slide shows the trend line and the relationship of Marriott room signings, rooms under construction and rooms openings. We are keenly focused on these statistics, as there is an obvious and significant relationship between each of these metrics. As you heard from Arne during his opening remarks, we missed the rooms forecast provided during the last Security Analyst Conference. The silver lining is that those hotels will open, albeit about five months later than expected due to construction delays.

As we further analyze the data on this slide, we note that the average number of rooms under construction in the two quarters leading up to our last Security Analyst Conference was 161,000. In the same number of quarters leading up to today's conference, we have seen an average of 213,000 rooms under construction. This 32 percent increase significantly heightens our confidence that we will achieve our forecast.

Slide G-28

I started today's conversation describing the race for global growth as a war being fought on two fronts: scale and quality. We have chosen to compete for both the myriad of advantages that scale brings and the compelling financial benefits related to quality. As I hope I have demonstrated, quantitatively we are winning on both fronts. Our record deal-signings volume has driven our industry-leading pipeline to over 478,000 rooms, and about half of those rooms are already under construction or signed, pending conversion. We expect to open between 275,000 and 295,000 rooms between 2019 and 2021.

Net of estimated deletions, we expect our system size to grow at a compound annual rate of 5.8 percent at the midpoint of this range. The estimated pre-tax fees from these new rooms are expected to total roughly $400 million in 2021, growing to an estimated $700 million annually when stabilized, and we expect that our scale, revenue engines, leading loyalty program, culture of innovation and broad brand portfolio should continue to drive rapid, high-quality, high-value unit growth into the future.

Thank you for your attendance today. I look forward to continuing our discussion during the Q&A and at the reception. And now it is my distinct pleasure to welcome my pal and our Chief Financial Officer, Leeny Oberg, to the stage.

Creating Shareholder Value

Leeny Oberg

Executive Vice President and Chief Financial Officer

Slide H-1

Thank you, Tony. Good afternoon.

Slide H-2

It is great to see all of you here at the New York Marriott Marquis sharing our vision for growth. When this hotel opened nearly 35 years ago, it represented a bold first step forward in the transformation of Times Square. Today, of course, this hotel and Times Square are thriving, welcoming over 50 million worldwide visitors annually and serving as the hub for the vibrant Broadway theater district.

This same spirit that we pushed forward helped us fuel our acquisition of Starwood. Like this hotel, we pursued the acquisition with the expectation that it would have its challenges. However, we also pursued it armed with the knowledge that our business model was proven, our associates capable, and fully confident that the combination of these two companies would be transformational.

In all the presentations today, you have heard about the key pillars that are the foundation of our business model: a relentless focus on our associates and our guests, and the delivery of exceptional experiences through our superior brands and powerful loyalty platform. This foundation is core to our proven business model that generates industry-leading financial returns for our owners and franchisees, enables us to obtain high-quality long-term contracts, produces sustained new unit growth, generates strong and resilient free cash flow and creates significant value for our shareholders.

Slide H-3

These pillars remain unchanged and following the acquisition of Starwood our business model is even stronger. There are now more opportunities to leverage the benefits of size and scale.

We are capitalizing on our expanded brand portfolio, with record signings in 2018, and have substantial green space to grow over the long term.

At the hotel level, we are enhancing owner satisfaction by driving greater property-level profits. In addition to profit improvement associated with RevPAR growth, we have achieved over 150 basis points of margin improvement since 2015 related to synergies in productivity, procurement, loyalty and other programs and services.

Combining the two companies also gave us a great opportunity to innovate. Under the terms of our management and franchise agreements, owners pay their fair share of systems costs such as reservations, marketing and revenue management. In the legacy companies, owners were charged for these programs and services on a program-by-program basis. It was complicated and difficult for an owner to forecast.

We have replaced this complex calculation with a Program Service Fund which covers systemwide required programs and services and is easily modeled by an owner based on just three items: hotel type, room count and room revenues. In addition to this simplicity and ease of modeling, it is now clearer that our charges are lower than our competitors. Remember, we earn no profits on these charges.

As you heard today from Stephanie, Marriott Bonvoy is a significant competitive advantage. With its growing base of 125 million members and increased customer value proposition, we improved our competitive position and expect to further increase our share of wallet. Franchise fees earned from the co-branded credit card program now represent over 10 percent of our total gross fees, illustrating the power of our loyalty program and hotel brands, with significant growth coming in the future expected.

Having meaningfully more international rooms means our stream of management and franchise fees are more geographically diverse and resilient than ever. In fact, as of 2018, we now earn over $1 billion of fees outside of North America. Our fees based on hotel profits now make up less than 18 percent of total fees. That compares to 26 percent in 2007.

Slide H-4

As always, an important part of any Marriott analyst day is our discussion of the next three years and the model. For this next three-year cycle, we are again presenting two RevPAR growth scenarios for comparable worldwide systemwide hotels. Please remember, these are only modeling assumptions. It is not a forecast and does not revise our 2019 guidance. The primary purpose of the model is to give you some perspective on how a change in RevPAR growth impacts our results.

Based on today's global economic outlook, we have assumed 1 percent and 3 percent compounded RevPAR growth through 2021. This is our global assumption, but individual continent growth rates may differ.

Our rooms growth forecast is based on our current pipeline and our assessment of openings based on today's construction and financing environment. We expect we will add between 275,000 and 295,000 gross new rooms over the three-year period, for a compound annual growth rate of almost 7 percent through 2021.

We assume deletions of about 1 percent annually. As noted in our guidance, for 2019 we anticipate deletions may be between 1 percent and 1.5 percent, but we are assuming it would moderate in the second two years of this model. Overall, at the midpoint, this would produce a compounded net rooms growth rate of about 5.8 percent through 2021.

As we begin to walk through our model, please keep in mind that we have used the midpoint of the rooms growth range for both of our RevPAR scenarios.

We are targeting leverage between 3.0 times to 3.5 times adjusted debt to adjusted EBITDA, and for modeling purposes have assumed a constant 3.3 times, consistent with a BBB investment-grade credit rating for the years 2019 through 2021.

Given this rooms growth model, the model assumes that the investment spend will total $1.5 billion to $1.7 billion over three years, including maintenance capital expenditures.

We have been very successful recycling capital since we acquired Starwood. With few assets left to sell, our model assumes about $650 million from capital recycling over the three-year period. We assume foreign exchange rates remain unchanged from our 2019 guidance and have modeled the income tax rate at 23 percent.

The model assumes cost reimbursement revenue and reimbursed expenses will net to zero, and we have included no further merger-related costs, nor any costs related to the data security incident, given that we cannot forecast those amounts.

Finally, we have adjusted the 2018 P&L to ignore the 65 cents of gains on asset sales that we recognized in that year.

Slide H-5

Before I jump into the results of our model P&L outlook, it is worth my briefly touching on the nature of our new unit growth.

In today's moderate RevPAR environment, unit growth is an important driver of our economics as we open hotels and the ramp-up of recently opened properties.

We expect our international rooms growth will outpace North America over the next three years. 28 percent of our net room additions over these three years are expected to be in the Asia Pacific region, which translates into a 10 percent growth rate compounded annually. This compares to our other international regions, which should also open 28 percent of our new rooms, yielding a 9 percent compound annual growth rate. Over 100,000 rooms should open in North America over the next three years, representing a compound growth rate of a strong 4 percent. By 2021, we expect to have roughly 1.6 million rooms, with nearly 600,000 rooms located outside North America. By the way, as recently as ten years ago, our worldwide system totaled only about 600,000 rooms.

Our Luxury rooms generate very high fees per room and are growing at nearly 6 percent worldwide compounded annually from 2019 to 2021, while our largely franchised Upscale and Upper Midscale brands are growing at 8 percent.

Slide H-6

As we typically do, let us begin with the largest portion of our fee stream: those property-based fees driven by top line sales. We earn base management fees on hotels we manage. These are typically long-term contracts, 20 to 30 years in length, where fees are calculated as a percentage of a hotel's total revenue, including revenue from rooms, food & beverage, and ancillary revenue such as meeting space, spa and other amenities.

Similarly, hotel franchise fees are typically calculated as a percentage of hotel room revenue, with some brands also earning fees from food & beverage. Contract terms average about 20 years in length.

For the sake of clarity, the teal-colored bar reflects franchise fees earned on-property only in this slide. We earn other franchise fees, such as our branding fees from our co-brand credit cards and fees from our timeshare business, which I will discuss in the next slide.

Based upon our RevPAR and unit growth assumptions, we expect these hotel revenue-based fees could grow 6 percent to 9 percent, compounded annually, from 2019 to 2021. The growth of these fees reflects the impact of new hotel openings, the ramping of recently opened hotels and exchange rates. The mix of base and franchise fees also reflects the impact of a few hotels converting from managed to franchised.

It takes about three to four years, on average, for a new hotel to reach stabilization. The impact of this ramp is most pronounced for our hotel franchise fees, where unit growth is disproportionately higher than the managed side. In just the past two years alone, we have opened nearly 95,000 new franchised rooms worldwide. As these newer hotels stabilize, we expect their RevPAR and fee growth to outpace comparable hotel RevPAR growth.

We expect the units that will open during this period will generate fees of $320 million to $340 million, but should generate more after 2021 as they mature.

Slide H-7

This slide layers on other franchise fees, which we expect will grow from $551 million in 2018 to roughly $745 million by 2021, or more than 10 percent compounded annually.

Co-branded credit card fees represent the largest component of other franchise fees and were $380 million in 2018. It is important to note the amounts on this slide represent only the branding fees recognized by Marriott on our P&L. We actually receive a much larger amount of cash overall from our co-brand partners, and the vast majority of that goes to support the Marriott Bonvoy program, including the cost of the points issued to cardholders.

The total amount received from our credit card partners is directly related to the number of cardholders and their monthly spend on the credit cards and the corresponding points that they earn. As a reminder, we assume no credit risk with these co-branded credit cards. We expect our co-brand fees to grow in line, if not a bit faster than, the overall 10 percent compound annual growth for this fee category.

Other franchise fees also include fees we earn from our timeshare business. In 2018, Marriott Vacations Worldwide completed its acquisition of Interval Leisure Group, bringing together the iconic vacation ownership brands of Marriott and Starwood under one roof. Their combined company now represents the largest and most diverse portfolio of brands focused on vacation ownership. License fees earned by Marriott in association with this long-term relationship exceed $100 million annually, with a fixed component of about $85 million per year.

Finally, other franchise fees include application fees related to new franchise hotel openings, relicensing fees that we earn when our owners sell their hotels to others, and branding fees from the sale of Marriott-branded residential real estate. Application and relicensing fees are amortized over the length of the relevant contract.

Including other franchise fees, we estimate base management fees and total franchise fees will increase 7 percent to 9 percent compounded annually, reaching $3.7 billion to $3.9 billion on a worldwide basis in 2021.

Slide H-8

Transitioning from our largely revenue-based fees, let us move to those that are based on bottom-line property-level profits.

Based on our RevPAR growth scenarios, we expect our incentive management fees, which represent our share of our managed hotels' profits, could increase 6 percent to 10 percent through 2021 on a compounded annual basis. The incremental incentive fees from unit additions shown on the slide are largely associated with international unit-growth expansion. Combining the incentive fee improvement from both new and existing hotels, we expect total international incentive fees will grow at an annual compound growth rate of 11 percent to 15 percent through 2021. And there could be more upside, because the new international hotels likely will continue to ramp after 2021, achieving stabilized profitability around year four. Of course, more international exposure also means more potential impact from FX. Included in this model is about a 40-basis point headwind in the compound annual growth rate for the expected impact of the strong dollar in 2019.

While it is not highlighted on this slide, we should note that our global Luxury hotel portfolio contributes roughly 30 percent of our global incentive fees in 2018, despite representing only 9 percent of our systemwide rooms. This reflects our focus on quality rooms growth, not just quantity. In 2015, Marriott earned about half of its incentive fees internationally, including 22 percent from the Asia Pacific region. With the Starwood acquisition, unit growth and RevPAR growth, we now expect mo

Slide H-9

re than 70 percent of our incentive fees will be earned internationally in 2021, with over 40 percent coming from Asia Pacific alone.

In North America, for nearly all of our managed hotels we earn incentive fees based on a percentage of the hotel's available cash flow after a deduction for owner's priority return. This priority is typically based on a targeted return of the original cost to buy or build the hotel. As a result, during recessions it is possible for hotel profits to fall below the owner priority threshold, resulting in Marriott earning no incentive fee on that property. In 2009, which was a particularly severe recession, we earned an incentive fee on about half as many full-service hotels in North America as we did in 2007.

By comparison, hotel contracts in our Asia Pacific and Middle East & Africa regions typically have no owner priorities. With these hotels, Marriott typically earns incentive management fees based on a straight percentage of hotel profits. Less than half of our European and CALA managed hotels have no owner priority. In the last recession, the number of international hotels earning an incentive fee actually increased in 2009 over 2007 levels.

Given the more favorable incentive fee structure of our international contracts, the shifting geographic mix of managed hotels over time has increased the stability of this fee stream.

By 2021, the riskier North American incentive fees should represent only 29 percent of our incentive fees and only 5 percent of total fees.

In contrast, we expect the lower-risk incentive fees from the Asia Pacific and Middle East & Africa regions will represent over half of our incentive fees by 2021.

As our unit growth continues to favor international markets, our total fees are likely to continue to become less risky over time.

Slide H-10

Under these scenarios, on a worldwide basis our total gross fees could reach $4.5 billion to $4.7 billion by 2021, a 7 percent to 9 percent compound annual growth rate from 2018.

These solid results are fueled by strong new unit growth, coupled with a positive impact of modest RevPAR growth. We estimate new hotels opening in 2019 to 2021 will produce roughly $400 million of the fee growth by 2021. The continued growth of our franchise system means we expect our earnings to become even higher-margin and more asset-light.

To assist in your own modeling efforts, we estimate that one point of RevPAR equates to approximately $40 million in total fees per year, of which $15 million relates to incentive fees. Of course, this is only a rule of thumb, as actual amounts can vary considerably. The estimate also assumes no foreign exchange impact.

Slide H-11

As I mentioned at the outset, our fee stream is now more geographically diverse and stable than ever. Fees earned outside of North America are expected to grow from $1 billion to nearly $1.5 billion, about 12 percent growth on a compounded annual basis, and should account for nearly one third of our total fees by 2021.

The ‘Other’ slice represents other franchise fees, including our credit card and branding fees.

Slide H-12

This chart shows our owned, leased and other corporate revenues, net of direct expenses. As of year-end 2018, we owned 14 hotels and leased 49 properties. Included in the 14 hotels are six hotels that were purchased as part of the Starwood acquisition and one hotel that we purchased in 2018, the Phoenix Grand Sheraton.

The blue bar represents the profits from the hotels that we expect will remain in the system throughout the three-year time horizon.

Of course, as we sell hotels, we gain fee revenue and cash proceeds but lose the profits shown here in the gold. We cannot perfectly predict which assets will be sold, or when, but assuming that we can recycle $650 million in asset sales by 2021, we estimate that we would lose about $42 million in owned hotel profits from those sales.

Lastly, the red bar highlights one-time termination fee income that Marriott receives when certain hotels exit the system. In 2018, this amount was higher than normal, and we expect termination fees to return to a more normalized level of about $20 million a year.

By the way, in our recent 2019 guidance we did not assume any asset sales.

As a reminder, we estimate that a one-point change in RevPAR growth impacts our owned/leased profits line by about $5 million per year.

It is also worth noting that the 2021 profits for the owned/leased line shown on this slide constitute only around 5 percent of total company EBITDA modeled for 2021.

Slide H-13

We remain focused on managing our costs after achieving the $250 million of corporate expense synergies from the Starwood acquisition. General and administrative expenses include corporate overhead for disciplines such as finance, accounting and legal. They also include the continental overhead that we need to grow and oversee our business, and they also include costs associated with new hotel development and corporate systems.

From 2018 to 2021, we expect total G&A and other costs will increase 2 percent compounded annually to $990 million in 2021 under either RevPAR scenario. Excluding the 2018 $51 million one-time supplemental workforce investment, the three-year compounded annual growth rate for G&A would approximate totally 4 percent, rather than the 2 percent that is shown here.

We expect depreciation and amortization will increase at a 1 percent compound annual growth rate over the three-year period as contract acquisition cost amortization increases in line with our system-size. Otherwise, modest increases in depreciable assets from renovations and other strategic investments should offset the impact from future asset sales.

Slide H-14

Here we present adjusted operating income for the company, excluding cost reimbursements as well as merger and other costs.

These operating margins are indicative of the significant operating leverage we could continue to expect with our asset-light model. Continued fee growth driven by positive RevPAR growth and unit growth, combined with controlled G&A growth, could drive our operating margins from 53 percent to 59 percent in 2021.

Given these RevPAR growth assumptions, adjusted operating income could increase 8 percent to 11 percent by 2021, compounded annually.

Slide H-15

This slide takes us down to the net income line.

We assume asset sales are sold at book value, and therefore do not contribute to the gains line. We expect interest expense will increase with higher amounts of debt as we maintain our target credit ratios as our EBITDA grows. Our tax rate is assumed to be 23 percent.

So, all in all, as you see here on the bottom line, net income could range between $2.3 billion and $2.5 billion, depending on the strength of the RevPAR environment, representing a 5 percent to 8 percent compound annual growth rate through 2021.

Slide H-16

Under these RevPAR scenarios, adjusted EBITDA could total $4.2 billion to $4.5 billion in 2021, a 6 percent to 9 percent growth rate compounded annually from 2018. This compares to $1.7 billion in 2015, the year prior to our acquisition of Starwood. The growth through 2021 demonstrates our ability to drive incremental value in a moderate RevPAR environment through sustained unit growth and operational leverage.

Slide H-17

As you can see, Marriott continues to be a fantastic cash flow story. For the three years 2019 through 2021, we expect cumulative net cash from operations could range from $7.3 billion to

$7.7 billion. These amounts exclude contract acquisition costs, or key money, which I will discuss in a minute.

Starting from net income, we add back the impact of non-cash share-based compensation and depreciation and amortization. Please note that there is a negative income-tax adjustment as we are modeling a cash tax rate of approximately 29 percent on our adjusted pretax income, which reflects certain discrete items as well as the annual payments required for repatriation tax related to the Tax Cuts and Jobs Act.

As discussed on the Q4 earnings call, we expect our loyalty program to be cash-neutral to Marriott for 2019 and cash-positive of $100 million to $200 million a year for the two years after 2019. This largely reflects the timing difference between customers earning points and redeeming those points in a growing loyalty program.

Slide H-18

Our approach to investing remains highly disciplined. We conduct thorough assessments for each potential investment and have net present value targets for our developers that include the cost of using Marriott shareholder capital. We utilize sophisticated financial models to assess the risk, applying higher discount rates to the riskier cash flow streams, and we invest only when our expected returns exceed our cost of capital. We continue to place a priority on capital recycling, and in today's model we assume investment spending will total about $500 million to $575 million per year on average, for a combined three-year total of $1.5 billion to $1.7 billion.

About one third, or roughly $600 million, of this spend is earmarked to support unit growth. We expect nearly 30 percent of the $600 million for unit growth will be invested in the growth of our higher-end hotels, such as our convention or Luxury properties, which generate significantly more fees per room compared to our Upscale and Upper Midscale hotels.

We do not assume any single-asset or strategic acquisitions in our model, as these are incredibly hard to anticipate in advance. Nearly 40 percent of investment spending should benefit our existing units as we continue to renovate and upgrade certain of our owned and leased properties. Please note, this amount also includes the buyout of the AC joint venture, which was completed earlier this year, as well as the renovation of the Phoenix Grand Sheraton. The balance relates to continued investment in our systems, much of which is reimbursed from our hotel owners over time.

As illustrated in the second pie chart, we expect capital expenditures and contract acquisition costs, or key money, to account for the majority of spend, with a much smaller amount of loans or joint venture investments. Included in our three-year estimate of investment spending is over $100 million of unidentified investment.

Slide H-19

Overall, our fee-based, asset-light business model continues to generate strong and sustainable cash flows. It allows us to invest in our core business un-invested capital, while also returning significant capital to shareholders, either in the form of share repurchases or dividends.

Capital recycling also provides a meaningful amount of cash flow available to shareholders. While capital recycling also reduces our free cash flow, our EBITDA growth still allows us to add meaningful debt while maintaining our target leverage levels. Given the cyclical nature of our business, our strong operating cash flow and a desire to maintain financial flexibility, we aim for a mix of roughly 50 percent fixed and 50 percent floating rate debt.

Our objective is to maintain a strong investment grade credit rating, striking the optimal balance between low cost of debt and appropriate leverage levels. Given our assumed leverage of 3.3 times, total debt net of cash could reach $12.5 billion to $13.5 billion in 2021.

On a combined basis, given our cash from operations, capital recycling, additional net debt and other, we estimate cash available for investment could reach $11.2 billion to $12.5 billion.

Slide H-20

Then we deduct our investment spending – $1.5 billion to $1.7 billion – and that leaves $9.5 billion to $11 billion to use either for opportunistic investment or to return to our shareholders.

For this model, we assume about $2 billion will be paid out in dividends over the three years, representing a dividend payout ratio of about 30 percent and a compound annual growth rate in dividends per share of between 14 percent and 18 percent. We like the flexibility this approach gives us to opportunistically invest throughout economic cycles.

Slide H-21

Given these assumptions, 2021 diluted EPS could range between $7.65 and $8.50, depending upon the RevPAR assumption. Assuming a 15 percent to 17 percent reduction in shares outstanding, this translates to a compound annual EPS growth rate of 11 percent to 15 percent. Under these scenarios, we could see our return on invested capital increase meaningfully to about 20 percent by 2021.

Slide H-22

This year, we are sharing a sensitivity model in addition to our two RevPAR growth models. As highlighted throughout my presentation this afternoon, I have referenced the resilient nature of our business model. While we are not predicting a recession during the term of our modeled outlook, the reality is that we are in year ten of this economic recovery, and our goal is to estimate the potential impact on Marriott's financial performance and flexibility in a downside scenario.

For the purposes of this sensitivity, we started with an assumption of 1 percent RevPAR growth in 2019, followed by a 5 percent RevPAR decline in 2020 and no RevPAR growth in 2021. Effectively a combined 700 basis point reduction from our low-end 1 percent RevPAR growth scenario on a worldwide, systemwide basis. From that, we assume a corresponding impact to our hotel fees and owned and leased profits.

Given the strength of our existing pipeline of hotels under construction, and consistent with our historic experience during a recession, we would expect most of these rooms to still open. So, compared to our base case, we modeled 10 percent fewer room openings in 2020, followed by 5 percent fewer room openings in 2021, and this would yield 5.4 percent net rooms growth for the three years rather than the 5.8 percent modeled in our base case.

Lastly, we removed any dispositions that we had modeled in either year 2020 or 2021.

Based on these assumptions, our downside model produced a 4 percent gross fee growth rate over the three-year compounded annually, driven by the ongoing impact of new units. Given the continued expected growth of our international managed hotel portfolio, in this recession scenario we could actually see incentive fees increase at a low single-digit rate compounded annually over the three-year period. Diluted EPS and adjusted EBITDA would still grow at a 5 percent and 3 percent growth rate respectively, compounded annually over the three-year period. Most impressively, we would expect to continue to return significant capital to shareholders in all three years, totaling $7.5 billion over the 2019 to 2021 period, while maintaining the same targeted credit ratios.

Slide H-23

Today, we have laid out our strategies to drive growth in loyal customers, worldwide rooms and return to shareholders. Our business model has been, and will continue to be, a powerful, growing cash generator. As you all know, one of Bill Marriott's guiding principles is, 'Success is never final,' and we try to live that every day. We are very excited about our opportunities to capitalize on the advantages created by the Starwood acquisition, to drive even higher customer preference and owner preference versus our competition. We are confident these strategies will allow us to deliver sustainable unit growth and increased market share. The result? Substantial increased return for our shareholders over the long term. Thank you.

So now I would like to ask our fearless leader, Laura Paugh, to lead us in our Q&A and I need Arne, Tony, Stephanie and Dave to join me up here on the stage. Thanks.

Question & Answer Session

Laura Paugh: If you would not mind, and in deference to those listening on the webcast, please identify your name and your firm. Why don't we start on this side?

Dave Beckel (Bernstein): I had a question just about the loyalty system and usage on a global basis. I appreciate the color you provided there, 50 percent of room nights on an annual basis is loyalty usage. Can you help us understand how that differs by geography?

Stephanie Linnartz: The 50 percent figure is worldwide average, and it does differ not only by geography, but also by brands. I would say that our penetration, the number is higher in the United States and it is lower but growing in other markets as we sign up more members into the loyalty program.

Dave Beckel: Just a quick follow-up to that. You noted the amount of usage from Elite members, what percentage of total membership is Elite membership, if you're willing to disclose?

Stephanie Linnartz: The figure that we disclose is the 77 percent of the paid room nights are from Elites. We have not been disclosing the number of Elites as an overall percentage, but the most compelling number, I think, is 77 percent of the paid room nights from our members are Elite. They are by far our most valuable members.

Dave Beckel: Great, thanks.

Stephen Grambling (Goldman Sachs): Thanks. I guess this will follow down a similar path, but you get substantial fees from the credit card programs. I think primarily that comes from North American consumers, how should we think about the potential for similar or other forms of fees to be accrued in international markets as you gain scale and grow the loyalty program?

Then, maybe a secondary question related to that would be, can you talk about the underlying assumptions for the liability for guest loyalty programs in your outlook?

Stephanie Linnartz: You are right, the majority of our credit card, co-brand credit card holders are in the United States. We do have a number of different cards in other markets that provide some income, but not as much. I think we are exploring opportunities in other parts of the world, for example China. I think as we grow our distribution and more people become familiar with our brands, and related to our brands, our loyalty program will sign up consumers all around the world.

In some markets there is an opportunity to make money, in other parts of the world you cannot make the same economics on credit cards. We continue to look for opportunities to grow, and again, everything is inextricably linked. The power of our brands is linked to the power of our portfolio and Bonvoy, and that is why people want to get one of our credit cards in the first place, right, is to earn Bonvoy points. As we grow the program, we will continue to look for opportunities, credit cards and otherwise, to grow more fees.

Arne Sorenson: Not to be too much of a downer, but the interchange fees outside the United States are on average dramatically lower, and so therefore, the economics associated with credit cards particularly is quite different.

Leeny Oberg: On the liability, one reminder is that the accounting relative to our Bonvoy liability has changed. If you remember now, basically, as we get the money in, it now goes into deferred revenue as a liability rather than the old-fashioned way it was before where you would use all your statistical calculations to come up, using breakage, et cetera. Now, from an accounting perspective, as we then actually have redemptions and the cost of the loyalty program in general, those are obviously the expenses on the expense side, and so we then bring in the deferred revenues from the liability as those points are redeemed.

Robin Farley (UBS): Great, thanks. You showed a lot of growth in limited-service in Europe and Asia Pacific. What percentage of your international pipeline is limited-service? I am just thinking about how typically they do not have as much incentive management fee associated with them, so just thinking about how that works out in your pipeline?

Tony Capuano: I will get you the exact percentage, but I would remind you that in some of the international markets we are still managing select-service, and so the structure of the IMF is identical to Upper Upscale and Luxury. We are still participating in dollar one of bottom line in terms of IMF. In Asia we are dipping our toe into franchising, but the vast majority of that select-service growth is managed.

Harry Curtis (Nomura Instinet): Good afternoon. A question for Leeny and a question for Arne. Leeny, if you could compare the investment spending over the past three years to your projections through 2021. And then, Arne, the question I have is the defensiveness of your business model through a down-cycle. Leeny gave a projection of its resilience in a negative 1.4 market, but if my math is right, it looks like your earnings would be still growing somewhere in the 4 to 5 down range. Can you just walk through how you perceive the defensiveness of your business model going forward versus the downturn in 2008 and 2009?

Leeny Oberg: You asked for the $1.5 billion compared to which time period?

Harry Curtis: I'm sorry. What I was looking for is your average has been $525-540 and what has been the experience over the last three years annually?

Leeny Oberg: Great. With the exception of the Phoenix Grand Sheraton, which was kind of a one-off strategic purchase, I would say we are in very similar levels relative to the last three years. The part that I will point out that is interesting is if you compare in our last Security Analyst Conference what we had for new-unit growth investment as compared to this one, it is at the margin a little bit lower, which I think speaks to the strength of brands. It probably speaks to some extent from the reality that it is a bit more select-service than perhaps it was before, but overall, we are not seeing that there is an increased need to invest to get the growth. Quite similar overall, and again, apart from the Phoenix Grand Sheraton.

Arne Sorenson: Thinking about the downside scenario for a second, Leeny took you through the shift in incentive management fees, which is one of the two profound differences for the company now compared to 2009. We are much less reliant on U.S. incentive fees, which are obviously where the incentive fees are the most volatile, than we would have been. We did not put this share up for 2009, but I would guess it was two thirds U.S. in 2009, and let's make sure we get the exact numbers there, where we are now about a third and we will be less than a third in 2021. That piece of our fee stream should be meaningfully less volatile.

The second is in 2009, we still had the timeshare business, and obviously we spun that off in 2012. Timeshare is much more capital intensive, much more of a discretionary purchase. We can all go back and take a look at what happened to the cash flows for that because we reported it as a separate segment, but you take those two things out, and I think that is principally why, even on this downside scenario, we see EPS growing at 5 percent. You have to, of course, ask about what happens with RevPAR at a plus 1, minus 5, 0 downside sensitivity. None of those numbers are as severely negative as what we experienced actually in 2009, and so you can give your own thought to whether that is fair or not. We think it is in the sense that if you are looking at it today, it is mostly just that it is year ten that is causing us to do this. It is not so much that we see a bubble-like economy in a way that we were experiencing in 2007, which led to something that was actually more profound.

Kevin Kopelman (Cowen): I had a question about online marketing. Can you talk about your approach to Google hotel price ads, and especially your willingness to pay for those leads to drive traffic to your own website as opposed to letting that traffic go to the OTAs? Thanks.

Stephanie Linnartz: We have a productive relationship with Google, and of course, spend money on Google as a marketing channel to drive business to our website and to our channels. We evaluate on a regular basis how we are going to participate in price ads, et cetera, or when we are going to think it makes more sense to have business come to us a different way. I think as it relates to the OTAs and intermediaries, again, we are constantly trying to figure out our marketing mix and our channel mix to drive the most profitable business to us at the right time. So it really depends on the economic environment, it depends on the hotel, it depends on what is going on in the marketplace in terms of how we adjust our strategy.

Kevin Kopelman: Thank you.

Patrick Scholes (SunTrust Robinson Humphrey): Good afternoon. I am wondering how the key money et cetera has changed post Starwood given that they had a history of doing big contract acquisition costs, and then I will have a follow-up question.

Tony Capuano: The short answer is meaningfully less. I think the deeper answer is that we have applied the same sort of deal making philosophy and valuation, analytics that we have used historically for the Legacy-Marriott brands. Again, it is a bit early, but I think the most important or relevant metric was the one I shared in my presentation. That, when you compare apples to apples, average NPV per key for Legacy-Starwood brands done during 2018, they were about 50 percent higher than the ones that were done leading up to the acquisition.

Patrick Scholes: Thank you. Then my follow up question concerns the acquisition, and as it relates to best practices. Certainly, the sentiment is that Marriott is instituting best practices at the Legacy-Starwood brand. Now that you have had the acquisition for several years, have you found there was anything that Starwood did exceptionally well that you would be instituting with the Marriott brands?

Dave Grissen: Absolutely. We have tried to look at both sides of the company and see where the opportunities were. I will give you one example. We found that Starwood had a wonderful process for worker's comp and controlling worker's compensation costs. We actually thought we were really good at it on the Legacy-Marriott side and spent four or five months benchmarking what they had been doing in the hotels and talking to the people on-property, and rolled that program out to all of our hotels. We have seen a totally different approach to how we handle injuries, and risk managements have been involved in the entire process. It is quite fun to find those opportunities in all honesty.

Stephanie Linnartz: I would add another tremendous strength on the Starwood side was SPG. There were some really, really fantastic elements of the SPG program. As I mentioned, when we were putting the two, Marriott Rewards and SPG, together, we looked at the best of both worlds. I would point out on the SPG side, things focused on the Elites, so for example, Suite Night Awards, late checkouts, some of which we actually imported over to Marriott Rewards before we even merged the programs. Again, Suite Night Awards, the Ambassador program. We did not have the Ambassador program on the Marriott Rewards side, so I would say there were a host of things on the SPG front that we brought over.

The other thing I would mention in terms of my area of responsibility would be on the brand side. Starwood has, now we have, absolutely even more fantastic brands. I think related to that, we brought a lot of talent over, again, across various teams. In my area, I feel very lucky that we were able to bring over some great talent, particularly in the sales and marketing and brands space, so a variety of things on the consumer front.

Tony Capuano: Laura, I might add one more because your first question was about key money. One of the deal provisions that Starwood routinely used in their contracts that we have adopted now, they will make a commitment of an amount of key money at signing, and we have a target opening date. To the extent those milestones are missed, we are reducing the key money, and you heard in Arne's comments where we are going to hit our openings, they are about five and a half months late, and that is one of the deal approaches Starwood had that we have adopted to try to shorten those project delays.

Joe Greff (JP Morgan): I have two questions, one is on sales and marketing and then the other is on Sheraton. Sales and marketing funding totaled $5.5 billion, at least in the last year based on this slide deck here, and that number was about $4.5 billion two years ago at the most recent analyst day, and that grew at a much faster pace than property level sales. Can you talk about, one, the sourcing of that funding, how much of it is borne by third-parties including credit cards? Then, two, how do you see that grow through 2021?

Stephanie Linnartz: The make-up of that $5.5 billion does include a variety of different things. It includes the funding that we receive as a percentage of revenue from our hotels. As I mentioned, each hotel contributes a piece of their topline revenue into the sales and marketing pot, if you will. It includes money from relationships we have with strategic partners, the credit card companies being one but not the only one. We do have other partnerships that contribute money to the sales and marketing pot, if you will. Those are the two main drivers, the piece of the topline revenue from our hotels and funding from the strategic partners.

Again, I think what is so compelling about that number is it really allows us to invest in consumer-facing technology in a way that we do not think anyone else can compete with because technology costs a lot of money, and as we try to compete more with the digital disruptors and others, being able to invest in technology is absolutely key.

Leeny Oberg: Joe, just one follow-up. We are not disclosing the particulars of the elements from the credit card companies for competitive reasons, but as you might imagine, it is a significant jump from what we had back in 2015. Clearly, a lot of what we have talked to all of you about, about the benefits that we were able to spread around to the owners, to the customers, as well as to the shareholders, but that again, from a standpoint of an overall amount, it is a tremendous amount for Stephanie to be able to invest in the revenues for the hotels.

Laura Paugh: Leeny, how quickly do you think that is growing over the three years?

Leeny Oberg: Over the next three years, that will probably be high single digits.

Joe Greff: Great. Then on the Sheraton, I think Tina made the point about how Sheraton is important and you're confident in its future in terms of its relative room size, third biggest brand, number one fee earner in a high growth market in Asia Pacific, and being the most geographically diverse brand. Where is that RevPAR index today relative to, I don't know what the relative bench mark is, full-service globally or the overall portfolio RevPAR index? And then how much of RevPAR index gains, other than what is driven by a 1 to 3 percent CAGR, is in your three-year outlook for that brand specifically?

Arne Sorenson: Just a reminder, the way index is calculated, it is not portfolio to portfolio. It is each individual hotel against that hotel's competitive set. The nearest Sheraton here is across the street on Seventh. Its competitive set undoubtedly actually will include other hotels in the Marriott portfolio just given the other properties we have around. I do not know it off the top of my head, but I would guess almost for certainty that the Hilton on Sixth would be in its competitive set. The big Crown Plaza here more or less across Broadway would probably be in the competitive set. Maybe one or two other Marriott portfolio hotels, so that gets measured hotel by hotel and then rolled up for the brand as a whole looking at those measures.

We are modestly above fair share today. When we acquired Starwood, we would have been modestly below. We have probably moved it three or four points, something like that, in total. As we talked about at lunch, some portion of that is getting rid of some of the worst performing Sheraton hotels, which almost by definition have low index. Some of that is probably a movement in share by itself. Generally, when you look at our 2021 model, we have not included an assumption about Sheraton having outsize RevPAR growth. In other words, not the 1 to 3 percent, but some other higher number because of a return to a higher share point. In a sense, you could say that is an upside, if you will, to the model we have shared.

David Katz (Jefferies LLC): Thank you for the information today. I just wondered if preparing this model, had it occurred to you what the meeting would have been like or what the model would have been like without that other bidder for Starwood way back when and you got it for the original price? What I wanted to ask about was, there is a lot of discussion about OTAs at a very high level. If you could talk about what some of the issues involved are beyond just commission rates, and some of the hot buttons in some general way, and the degree to which those outcomes may impact some of the numbers you have put up today?

Stephanie Linnartz: Let me start with how we think about the OTAs and our relationship with them. It is more than just commissions, absolutely. That is an important part of it, but when we go into negotiating with our OTAs, we have three objectives in mind. Number one is to make sure that we are able to differentiate our own Marriott direct channels, meaning we can offer special things to members, in particular when they book with us direct. Points - you only get your points if you come direct; member rates, free Wi-Fi, et cetera. Brian King went through a number of those.

The second objective that we have when we are negotiating with the OTAs is that we want to be able to, we must be able to control how our rates and inventory are displayed. That is critical to us. Then third and importantly, is lowering our distribution cost. It is absolutely more than just about lower commissions. It is about differentiating our own channels as equally important, and being able to control how our rates and inventory are displayed. That is kind of how we think about these negotiations beyond commission.

How it would impact the model, one other thing as I am sure Leeny or Arne will want to jump in on the financial model piece – it is important to note, Brian said this in his presentation, our OTA mix has remained flat year over year as we have had a concerted effort to strategically yield OTAs during high demand times.

Anthony Powell (Barclays): Good afternoon. This is for Tony. You mentioned that there is 7,000 market opportunities that, again, many that are untapped. Your competitors also probably have many that are untapped. How do you look at the overall impact of supply not only on your plans, but also your existing portfolio? Do you worry that there is too many hotels being opened up in some submarkets or some chain scales?

Tony Capuano: I think I would answer that two ways. I would say, number one, remember particularly in a softer economic environment, a disproportionate share of new hotels we bring into the system are conversions as opposed to incremental new rooms going into a given market. I would say to you secondly, in terms of the feedback we get from our owner and franchisee community, the rigor we have around our impact process, the ability we give our owners to ask us to hit the pause button and have third-party impact studies done, we think we have got the right sort of collaborative relationship with our owners in that regard.

As you would expect, it is interesting if you think about the stats I shared, about the number of multi-unit owners in our portfolio, they love the impact process if we are thinking about bringing a new hotel into a market where they operate. They hate our impact process if they want to bring a new hotel into somebody else's market, but the good news about having such a high percentage of multi-unit owners is they feel pretty good about the fairness of that process. I think that serves us well when we think about adding hotels, even in markets where we are well-distributed.

Jared Shojaian (Wolfe Research): Hi, the first question is for Arne. Early in your presentation, you talked about some of the loyalty benefits, the upside not being in the targets that you have outlined today. Whether that was the zero fee co-brand card or the peak off-peak pricing for the loyalty redemptions, can you just sort of help me frame what that opportunity looks like over the next couple of years? Is it tens of millions of dollars? Is it less than that? How should we really think about that?

Arne Sorenson: That is a great question, and it is of course dangerous to put any numbers around an upside that we have not built into the model. A couple of points that immediately come to mind; one is that the credit card writ large program is in the model and it is in at a rate that assumes we are growing new cardholders and growing spend. In a sense, while there could be upside in the credit card, I would say that my comments were really more about how does loyalty drive our share of wallet for hotel stays as opposed to credit card spend.

I think the only way I would encourage you to think about making your own judgement about this, Leeny gave in her presentation our sensitivity of one point of RevPAR, and so if you thought, okay, can Marriott drive enough share of wallet gains through a single loyalty program? How much do we think it could be? Well, you have got the tools to figure out, okay, a point of RevPAR in one year is worth X. Obviously, if you drove a point every year, that is going to have a compounding effect, but those are your tools to think about.

Jared Shojaian: Thank you. Then, my next question is for Leeny. If I go back to your cash conversion slide where you showed the build from net income to operating cash, if I look back at that same slide from a couple years ago, the conversion was a little bit better. I know you talked about the liability for the loyalty program and some of the issues that are different now versus then, but I think on a couple of the other components, the cash taxes are a little bit higher. I guess I was a little bit surprised to hear a 29 percent cash tax rate, so maybe if you could talk about that? Then also, the working capital is a negative. It was a positive before. I would think as you grow, maybe you would see positive working capital. Maybe you could just expand on that? Thank you.

Leeny Oberg: Sure. Let’s talk about cash taxes first, and that is that the reality is, if you remember, at the end of 2017 we booked a repatriation tax of over $600 million that relates to what we need to pay out on our international profits back to the U.S. Treasury over the next eight years. That is going to be in the ballpark of a little bit over $50 million a year that is in addition to our normal effective tax rate of 23 percent. Then, on top of that, we have got some discreet tax items, frankly, related to things left over from the Starwood acquisition that we are assuming as part of this that will go into that amount of that cash tax rate. That is that component.

I think, again, over time, that repatriation will go away and you will drop back down the 23 percent, and I think these discreet items also, over time, will go away. If you remember, in 2018, we had a particularly beneficial tax rate because of some other discreet items that brought us down to 19 percent, which is part of why the net income growth CAGR is a little bit tough.

As it relates to working capital, there are a variety of things going on in there. In general, I agree with you; as we grow our negative net working capital benefit of a growing system, it should continue to grow, and that is the case, it will. That category does have everything in the kitchen sink thrown in. One of the areas that impacts that is what we call other investing, which is where when we do systems investing and the hotels pay us back over time, that is a cash mismatch, which can hurt us on the cash flow side.

Then as well, from another perspective, if you remember, we had Avendra, which if you remember was our procurement arm that we sold, and there we ended up with this delightful, huge $660 million gain. We will be spending that on behalf of the system to cover some cost over the next several years. That is the other chunk that is in that line item.

Ashish Doshi (Soroban): Two, I think, relatively simple questions from me, both for Leeny. One is, I am wondering how to think about your EPS growth algorithm structurally. You backed out the abnormally high gains on sale from 2018 in the base, but your 2019 guidance, using that as the base, still implies a relatively tepid EPS growth of like 5 or 10 percent. I think you have explained that is because of the termination fee headwind on the owned and leased line and IMFs below natural just because of inflation.

Leeny Oberg: Right, and the tax rate going from 19 to 23 percent tax rate.

Ashish Doshi: Right, understood. I guess if I roll forward to 2021 and the outlook you have shown here, and I just take the 2019 guidance versus 2021, you are sort of showing 14-18 percent EPS growth, which kind of makes sense to me if we are starting with somewhere roughly low double-digit EBIT growth. I just want to make sure I am understanding if the 11-15 percent 2018 to 2021 EPS CAGR is really a function of some discreet headwinds in 2019 followed by sort of more run rate in mid-teens growth outlook thereafter.

Leeny Oberg: Sure. A couple of things also to remember, that in this particular model, you are seeing the impact of meaningful increase in debt. Just remember our last model, we had a ton of asset recycling. There was several hundred million dollars of cash that was overseas that we ended up being able to avail ourselves over once we bought Starwood. There were a host of things that we did not have to increase debt for to be able to have this extra cash available. If you look at our last model, you will see the increase in interest expense was literally about a fourth of what it is this time. You have higher debt levels, and probably at the margin, a little bit of higher interest rate expected as compared to what you saw a couple of years ago.

I think the fundamental equation though still is the same; the unit growth, the RevPAR growth. We had a very modest case at 1 percent. When you think about classically for IMFs, particularly in the U.S., you need easily 3-3.5 percent RevPAR growth to be able to keep up your margins such that you maintain that level of IMF growth. From that perspective, you are looking at the 1 percent of really a quite conservative case there on that part of the earnings stream. So I think in a more normal sort of environment, when you are talking about the 3 percent, when you get past these tax differences plus the systems growth that Tony has talked about, and the operating leverage that we usually drive, you get back to that lower to mid-teens EPS growth system on a longer term basis.

Ashish Doshi: Got it, thank you. Then, just a clarification question; the $1.5-1.7 billion investment spend, I just want to be sure that includes loan advances on the mezzanine mortgage note side?

Leeny Oberg: Yes, it does.

Ashish Doshi: Does it include repayments?

Leeny Oberg: No, it does not. That is in our asset recycling number.

Ashish Doshi: That is in the $800 million recycling number?

Leeny Oberg: That is always included in the asset recycling number. Now, those investment numbers are only dollars out.

Vince Ciepiel (Cleveland Research): I have a question on the unit growth, specifically around deletions. I think they ran about 2 percent last year and in 2019 they were guided a moderate 1-1.5 percent. But over your projection period you assume 1 percent, which suggests that they fall even further in 2020 and 2021. So I am just curious, do you feel that you have worked your way through a lot of the Starwood related deletions, and is 40,000 deletions over the projection period a reasonable bar to hit?

Leeny Oberg: We hope so. It was 1.7 percent last year, and to be fair, the Legacy-Marriott portfolio was less than half of what it was for the Legacy-Starwood portfolio. You saw the Legacy-Starwood portfolio have deletions that were over 2 percent, while the Marriott level was much closer to the normal 1 percent. Traditionally, the Legacy-Marriott portfolio has been 80 basis points one year, 1 percent another year, 1.2 percent. It's averaged out to be around 1 percent. Obviously, last year we saw it at a meaningfully higher level, and yes, we do think that we have worked our way through many of the issues and that we are seeing it come back down. We have still assumed, this year, 1-1.5 percent, but we do believe we got, as we work through all these issues, a good chance of being able to hit 1 percent over the three-year period.

Vince Ciepiel: Great. Then, secondarily on the fee guide, I just wanted to take a step back and think high-level. In the last three-year period, the model suggested 7-8 percent type of fee growth, and now you are thinking 7-9 percent, which is a bit of an acceleration despite the room growth target decelerating by 75 basis points. The 2018 base already has a pretty significant bump from credit cards from 2017 to 2018, so I am curious, what are the big drivers that cause an acceleration in fee growth despite those other two things that seem to point to a deceleration?

Leeny Oberg: One of the best things that has happened as a part of this Starwood acquisition has been the work that the operating teams have been able to do in terms of margins. You can look at pretty much every single discipline across the hotel operations for the managed hotels and see really tremendous performance. As I described, apart from RevPAR growth, we have been able to increase margins by 150 basis points over the last three years. That is overwhelmingly as a result of the merger, whether it is procurement, whether it is the OTA rates, across the board.

As you see that, particularly as we talked about international, where we are seeing disproportionate growth come from on the managed side, those fall straight down. We are not talking about owner's priority. You get a dollar profit, we get our share. That is definitely part of it from that standpoint. Then, the other part on the fee growth, it is just the reality that when we gave you the model three years ago, we undersold credit cards. We did the best we could. We were in the middle of negotiations, we did not know where it was going to end up, but the truth is it has ended up a little bit better.

Stuart Gordon (Berenberg): Hi, a couple of questions. Looking back, and as you just said, to the last analyst day, the credit card potential is something that I take away as being a differentiator. Today, I feel it is Bonvoy and what you can do with that. This obviously includes the changing breaking dynamics and that is not going to just come down to RevPAR, but also significantly lower costs of acquiring the booking. Does that need any re-education of your owners who have only really looked at RevPAR before, or do they immediately get the change in the dynamics?

Arne Sorenson: I think for better or for worse, the one stat in our business, there are really two, but the one stat germane to your question is RevPAR growth, which is gross room revenue coming in. It is not the profitability side of that revenue equation. As a consequence, all of you look every quarter, as we do too, and say, okay, what about Marriott's RevPAR numbers compared to Smith Traveler, compared to other competitors in the industry. We have basically said, the long game here is profitable contribution from the topline, and so let us go ahead and take steps like yielding some of our inventory off of OTAs when it is projected to be high occupancy nights.

We know there might be a marginal impact on RevPAR there, but the marginal impact is less than the incremental profitability from filling the hotel with lower cost business. As Brian King talked about this morning, we are going to use, through our revenue management system, formulas and algorithms that look at profitability, not simply maximizing the RevPAR number. We will keep going at that.

You did not ask it, but the other measure that is out there for better or worse, it is really simple, is either gross unit growth or net unit growth that looks at rooms only as if every room is the same. That is madness, if you will. We will not take a room that does not deliver value to our system, value to Marriott. As Tony mentioned, our developers are compensated not just on rooms growth, but on the net present value of the deals that they do. We think that is the kind of thing that drives behavior, which will deliver high quality unit growth to the system, and therefore, the kind of fee growth that we want to experience.

Stuart Gordon: Just secondly, how closely are you monitoring your loyalty members to understand the contribution that they all make, and at what point will it be much more a focus on the quality of those members rather than the number of members?

Stephanie Linnartz: We definitely monitor the profitability of our loyalty members, our credit card members. As I mentioned, our credit card members in particular who are loyalty members too are our most profitable. They stay with us three times as often and contribute meaningfully more revenue. We will continue to look at, again, the profitability of the loyalty members, and also think about their lifetime value. We do a lot of modeling around looking. While we have a lot of money to spend in sales and marketing, we do not have endless sales and marketing, so when we are targeting people to join our loyalty program, our analytical team will look at projected lifetime value of a particular person and their propensity to drive long-term value to us or to be a great target for a credit card acquisition campaign. We do a lot of modeling to determine lifetime value of consumers as part of our acquisition from both the loyalty program and the credit card.

Arne Sorenson: Let me just really close by saying thank you to all of you. I do not need to repeat, I do not think, the powerful elements of the model that we have shared with you today, and the powerful aspects of the strategy that the team is incredibly enthused about implementing around the world. I suppose the one summary point that I would make; we are extraordinarily optimistic about the future. We think that the business model is powerful. We think that the collection of brands and the breadth of distribution that we have is powerful.

We think that the loyalty program, now newly renamed Marriott Bonvoy, is exactly the kind of synthesizing brand that will allow us essentially to go to market in a way that our customers understand and that they can easily come to us. We know all of you are our customers too, and we appreciate you for being our customers. I think even more than that, maybe as we look across the room, I am struck by how many of you we view as friends and partners in the venture. We are, of course, committed to being transparent with you.

We also want to make sure that you give us the advice that you have. We are all ears all the time for whether or not there are aspects of what we are doing that we could do even better, and so please, give as well as you get and let us have the benefit of your thoughts. We are grateful that you have spent all of these hours with us today and appreciate the partnership we have.

Lastly, let me thank the Marriott team. I am always impressed to sit and be able to listen to their presentations and the enthusiasm they bring. In addition to Laura Paugh, of course, we have Laura Pearce and Betsy Dahm who have been instrumental in pulling this platform together. I also want to ask all of you to help me thank Laura Paugh. She is an extraordinarily important partner of mine and of Leeny's and of all us at Marriott. She has now delivered the eight or ninth of these programs, I do not know what the precise count is, and she is tired of hearing me say it, but she and I have done 82 straight quarterly earnings calls in 20.5 years, which I think by itself is a record. She has got a number of years before I even got going on this. You have not given me the precise count yet, but it is probably about 100 straight quarterly calls. Obviously, she is the most credible investor relations professional out there, we believe, and I think we are not the only ones who believe that. Laura, thank you, and thank all of you.

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facts. We caution you that these statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including changes in market conditions; changes in global and regional economies; supply and demand changes for lodging products; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance growth and refurbishment; the extent to which we can continue to successfully integrate Starwood and realize the anticipated benefits of combining Starwood and Marriott; the extent to which we experience adverse effects from the data security incident; changes in tax laws in countries in which we earn significant income; changes to our estimates of the impact of new accounting standards; and other risk factors that we identify in our most recent annual report on Form 10-K. Any of these factors could cause actual results to differ materially from the expectations we express or imply here. We make these statements as of March 18, 2019 and we assume no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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