Note on forward-looking statements: This document contains "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add to or remove from our system in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this document include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; and the availability of capital to finance hotel growth and refurbishment. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of July 12, 2012. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc.
Second Quarter 2012 Earnings Conference Call Transcript[1]
July 12, 2012

Operator: Welcome to the Marriott International second quarter 2012 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the president and chief executive officer, Mr. Arne Sorenson. Please go ahead.

Arne Sorenson: Good morning, everyone. Welcome to our second quarter 2012 earnings conference call. Joining me today are Carl Berquist, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

As always, before we get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward looking statements in the press release that we issued last night, along with our comments today, are effective only today, July 12, 2012, and will not be updated as actual events unfold. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

I know the first and most important question you may have is "are you seeing a slowdown in North America". And the answer is no. There is plenty of evidence of continuing strength in our lodging business in North America.

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

In North America year-to-date, the Marriott brand's special corporate revenue has been strong, up over 8 percent. Group revenue rose 7 percent year-to-date and group bookings for the second half are even stronger.

Our strong book of business in 2012 allowed us to drive RevPAR aggressively in the first quarter. But in the second quarter, strong seasonal demand combined with a continuing recovery, yielded an uptick in "sell-out" nights. While we were pleased to show 6 percent RevPAR growth in our company-managed US Marriott hotels during the second quarter; we realize that we turned away some high rated business because our hotels were full. For example, in Hawaii, occupancy at Marriott branded hotels increased from 79 to 81 percent year-over-year in the second quarter, while occupancy at our competitive set hotels grew from 72 percent to 78 percent. As our hotels reached capacity, we had less room to grow occupancy than the market as a whole. Looking ahead this is good news, because as occupancies build, further room rate improvement should follow.

For North America overall, we expect this strong book of group and special corporate business to yield excellent results in the seasonally lighter third and fourth quarters, and we continue to expect 6 to 8 percent RevPAR growth for full year 2012.

Outside North America, we are fine-tuning our thoughts on RevPAR growth for the rest of the year. In Asia and the Middle East, RevPAR growth rates for a few luxury hotels are expected to moderate in the second half, largely associated with individual market issues. In Europe, third quarter RevPAR will be helped by the Olympics in London and the EuroCup championship. At the same time, the weak European economy will likely create headwinds. So we are expecting total international RevPAR to increase 5 to 7 percent on a constant dollar basis and about 300 basis points less on a local currency basis.

We've also reduced our room opening expectations a bit for 2012. In the first quarter, we noted slippage in opening dates from 2012 to 2013 for some new hotels in Asia and the Middle East. In the second quarter, the slippage continued in these markets, as well as with a few projects in Mexico. We continue to see a lot of conversion opportunities around the world but they too are taking a bit longer as some projects require more extensive renovation before flagging. As a result, today we expect to open 20,000 to 25,000 rooms in 2012. Since this reduction is largely timing, we continue to expect to add 90,000 to 105,000 rooms from 2012 through 2014.

Given all of this, we've tweaked our outlook for fee revenue for 2012 down by about $20 million. $15 million of the decline in the third and fourth quarter is associated with RevPAR, unit openings and the stronger dollar, with the balance largely associated with the sale of our corporate housing business. For EPS, the impact of the sale of our corporate housing business is immaterial.

Getting back to the second quarter, as I said, North American demand was very strong. Renovations at a couple of large hotels had a negative impact on RevPAR. But we saw double-

digit RevPAR growth in the quarter at our company-operated hotels in Miami, Philadelphia, New Orleans, San Diego and Los Angeles. In fact, at more than 55,000 rooms in California, systemwide comparable RevPAR rose 10 percent in the second quarter.

Washington, DC is another important market. In fact, DC is so meaningful that its weak RevPAR in the quarter reduced our company-operated North American RevPAR by a point. But even here there is good news. Interest in the upcoming election is starting to drive political business to the city. Group revenue bookings in DC for the Marriott brand are up 10 percent for the second half of 2012 and 16 percent for 2013. 2013 should be a good year overall in this market, but we'll have to see how government demand shakes out. Next year's government per diems will be set this August and we will be watching this carefully.

In total, group business in the US was very strong in the quarter. Group revenue for company-operated Marriott hotels increased nearly 8 percent. Catering revenue increased 7 percent and remains quite profitable. Looking ahead, for the second half of the year, group booking pace is up 10 percent and 2013 booking pace is up 8 percent. Just 12 months ago, our 2013 booking pace was up only 1 percent.

We are very bullish about pricing in North America in 2013. For group business on the books for next year, room rates are running up 4 percent. On the transient side, we are targeting price increases for special corporate business at a high single-digit rate on average.

We saw strong performance in the second quarter in part due to the very favorable supply environment in most markets. Smith Travel estimates supply is growing at less than one percent in the US this year. And in total, US industry rooms under construction stand at 60,000 rooms compared to over 200,000 rooms in 2007.

Outside North America, systemwide comparable RevPAR rose over 7 percent on a constant dollar basis, or roughly 5 percent using local currencies. Growth in China moderated in the second quarter but continued to deliver outstanding performance with constant dollar RevPAR up 8 percent. Weak economic conditions in Europe, India and Hong Kong constrained growth and some small markets suffered from oversupply, such as Hyderabad in India and Shenzhen and Sanya in China.

Occupancies at our hotels in the Middle East improved compared to last year's Arab Spring results. However, travel wholesalers still aren't jumping back into the market, so we are likely to continue to see volatility here for a while longer. Finally, our hotels in Japan recovered from last year's tragic tsunami.

Turning to development…our brands remain highly attractive to owners and franchisees around the world. Our worldwide pipeline remains at roughly 115,000 rooms, excluding the nearly 8,000 Gaylord rooms in the works.

We continue to build market share as measured by rooms. According to STR, in the US, we have 10 percent of open rooms but nearly 20 percent of rooms under construction. Year-to-date, we've added nearly 100 North American hotels to our development pipeline compared to just 57 in the first half of last year. Most of this year's new projects in North America were limited-service deals, but we also added 15 full-service hotels to the pipeline. And that doesn't count Gaylord. But lest you worry about overbuilding, financing remains very tight, conversion activity is very strong and our pace of new signings remains less than half of the robust years of 2007 and 2008.

It's been just over three weeks since our China analyst meeting. We were delighted that so many of you were able to join us in both Beijing and Shanghai as we toured some extraordinary hotels. In China we talked about a very bright future for Marriott. With a 115,000-room pipeline, growth on all continents around the world, and RevPAR growth running 6 to 8 percent, we are seeing the makings of that bright future now.

Now Carl will take us through the second quarter's results. Carl?

Carl Berquist: Thanks, Arne.

In the second quarter, we reported diluted earnings per share of $0.42, a 24 percent increase from the prior year adjusted results and consistent with our $0.39 to $0.43 second quarter guidance. Our year-over-year comparison adjusts last year's results for the timeshare spin-off and other charges.

There were a lot of ins and outs in the quarter. Compared to the midpoint of our expectations, our fees were about 2 cents below guidance due to weaker than expected RevPAR in some markets and the timing of franchise relicensing fees. In contrast, our leased hotels outperformed by about a penny with very strong RevPAR growth, particularly in London. Timing of branding fees added another penny. The remaining penny benefit came from some one-time items including a termination payment, net of a key money charge, the impairment of a property in a joint venture interest and a favorable tax item.

Worldwide constant dollar systemwide RevPAR rose nearly 7 percent, consistent with our 6 to 8 percent guidance.

This growth in RevPAR, together with ongoing cost controls, resulted in worldwide house profit margins increasing 110 basis points during the second fiscal quarter and house profit per available room increasing 9 percent.

Total fee revenue in the second quarter increased by 7 percent with incentive fees up 12 percent. In North America, incentive fees increased 15 percent despite lower incentive fees in Washington, DC As Arne mentioned, we expect DC to improve in the second half with stronger group business already on the books.

Given the recent strengthening of the US dollar, foreign exchange rates were a more significant issue this year than last. We typically hedge roughly 70 percent of our exposure to the Euro, Pound Sterling, Canadian Dollar and Japanese Yen for one year at a time. However, we have operations across more than 70 countries in all, including over 30 other currencies. For the full year, our guidance assumes approximately $9 million year-over-year lower fees due to foreign exchange.

Owned, leased, and other revenues, net of direct expenses, more than doubled reflecting very strong performance at leased hotels in Tokyo and London. In addition, termination fees rose $12 million and branding fees increased $9 million.

General and administrative expenses included a $7 million charge for key money related to the termination fee I just mentioned and $5 million in new reserves, largely for guarantee payments. Outside of these items, our G&A expense met our expectations.

Our company margins improved dramatically. Adjusting for cost reimbursements, Marriott International's pretax margins totaled nearly 35 percent in the quarter, up 160 basis points from the prior year's adjusted results. EBITDA increased 13 percent over the prior year's adjusted amount and EBITDA margins totaled 48 percent. Return on invested capital was very strong.

For the third quarter, we expect worldwide systemwide RevPAR to increase 6 to 8 percent with continued strength in group and special corporate demand in North America. Retail demand should also be strong. The recent East Coast storm filled hotels from Ohio to Washington during what was expected to be a slow week. We were glad our associates were able to help their communities. Through the summer, we expect high occupancy from the Democratic Convention in Charlotte and the Republican Convention in Tampa. Better airlift into the markets in the Carribean and Mexico is also fueling demand. And as mentioned, the London Olympics and the EuroCup championship should help third quarter demand in Europe. Incidentally, congratulations to Spain on their big win.

We expect general and administrative expenses will total roughly $155 million in the third quarter largely related to normal inflation and costs associated with some property workouts.

We completed the sale of our minority interest in the Courtyard joint venture early in the third quarter. Marriott will continue to operate the 115 Courtyard hotels under long-term management agreements. Two-thirds of the portfolio has received the Courtyard Refreshing Business lobby and most of the hotels will complete rooms renovations in the next 18 months. With this transaction, Marriott expects to recognize about $5 million in fee revenue for deferred base fees and an approximately $40 million gain in the third quarter. We've already received $90 million in cash proceeds from the transaction, demonstrating once again our success in recycling capital.

Bottom line, third quarter earnings per share should increase 34 to 41 percent from third quarter 2011 adjusted earnings per share.

For the full year 2012, we expect global RevPAR to increase 6 to 8 percent, EPS to increase 26 to 34 percent and EBITDA to increase 12 to 17 percent over the prior year adjusted amounts.

Including a $210 million investment for Gaylord, we expect investment spending in 2012 to total $850 to $950 million. That reflects about $100 million in maintenance spending.

We expect to return roughly $1 billion to shareholders through share repurchases and dividends in 2012. We repurchased 10.5 million shares in the second quarter for $400 million, a significant increase from the first quarter levels. To be sure, we continue to look for opportunities for investment in our business. If we find value-creating investments like Gaylord, share repurchases could vary from these amounts. We will remain disciplined in our approach to capital investments and repurchases.

As I mentioned at our analyst day last month, we expect to share our 2013 earnings outlook with you in February after we complete our budget process. So, we will not be providing earnings guidance for 2013 this coming October.

We appreciate your interest in Marriott. We are very excited about the future of the Company and hope you are too. So that we can speak to as many of you as possible, we ask that you limit yourself to one question and one follow up. We'll take questions now.

Question and Answer Session:

Smedes Rose, Keefe, Bruyette & Woods: The $20 million of lowered fee, did you -- just want to be sure -- it sounds like about nearly half of that reflects the FX, and the balance is just due to slower results at international properties? Is that correct?

Arne Sorenson: Well, I think it's -- to be fair, it's going to be less than that for FX. That FX number is a year-over-year number that we use, that $9 million. And the $20 million that we're talking about is basically compared to our prior guidance. So, those are not quite apples-to-apples. But FX relicensing fees -- and relicensing fees by and large are driven by the sale of existing franchised hotels, and that volume has been down a bit lower than we expected - a little bit softer RevPAR with some fine-tuning around individual assets.

And then the other thing that we didn't talk about in our prepared remarks, the sale of the ExecuStay business, and with it the elimination of that is a mid-single-digit number of millions of dollars on a full-year basis, I think.

Smedes Rose, Keefe, Bruyette & Woods: Okay. And then, when did you guys start to see the trend line for international business start to, I guess, deteriorate and, therefore, have to bring

down your -- the full-year outlook for international? And does this bring into question the three-year outlook that you presented specifically for China, just in June?

Arne Sorenson: We think on the second question it does not bring into question on a multi-year basis at all. And let's stress the words we used in the prepared remarks. This is not a thematic reduction, but driven by individual market dynamics. We talked about Shenzhen and Sanya, as an example. When we look at the forecast that rolled up through our system here for the end of this quarter, what we saw was individual stories, and every time we looked at it to see whether there was a theme, we really did not see a global slowdown theme. But what we saw was some individual markets, particularly some Luxury hotels that were impacted either by supply or by some other specific market conditions.

Smedes Rose, Keefe, Bruyette & Woods: Okay. Thank you.

Steve Kent, Goldman Sachs: Hi. Good morning. Just on RevPAR for this quarter, I just want to understand your full-service, and specifically your Marriott Hotels and Resorts brands. The brand reported 6 percent RevPAR in the second quarter; that's a deceleration from the 7 percent in Q1, and it's also below Smith Travel results for the second quarter. So, I understand the DC weighting, but DC actually improved first quarter to second quarter. The group side should start to act better, and now we're talking about yield management issues as to one of the reasons why you didn't get pricing. I guess I'm trying to understand if there's maybe more of a structural issue here, where we're back to having that question because you're now below Smith Travel again?

Arne Sorenson: Yes, and again, Smith Travel, just as a reminder, is a really blunt instrument. So, Smith Travel, you're looking at a broad number of hotels distributed across the United States in a way which is different from our distribution. And even though we are big, our differences in our distribution between the industry as a whole and the performance at individual assets can have an impact on those numbers. So, we feel great about the way our sales offices are working, and the way our brand is resonating with customers. So, I think the best indication of that is the data we've given you on group business and on special corporate, which are up substantially, and there is no sign at all that we've got a problem associated with that.

When we look at our headline RevPAR number and we look at the Smith Travel number, and again, we can run as many theoretical adjustments to this as you can imagine, but the ones that are most significant to us are DC, which is about a point difference, and a couple of big hotels where renovations extended longer and had a more disruptive impact than we thought. And that's probably about another 0.5 point or so to the MHR number, maybe even 0.7 of a point to the MHR number in Q2.

Steve Kent, Goldman Sachs: Just as a follow-up then, on another issue that I'm concerned about that might be structural is incentive fees. Incentive fee growth was 12 percent in the quarter. We were looking for more like 20 percent. The RevPAR unit level profits don't seem to

be translating into that incentive fee growth, and, I guess, again, is there some kind of structural issue here where either the Courtyard or other property management contracts have been revised so much that we're just not going to see the profit increases and those incentive increases as we would have seen in previous cycles? And it does seem like more of them are paying incentive fees, but the amount, the dollar amount, just doesn't seem as much as we used to -- we would have expected at this point.

Arne Sorenson: Yes, and I think we still expect, in full-year 2012, that our incentive fees will be growing about 20 percent, and I think that's a more important growth rate number to look at than what we put on the books in any particular quarter. Obviously, a few million dollars more of incentive fees in Q2 would give you a materially different year-over-year growth rate for that quarter. And a few million dollars is easy to miss by, because of stories in individual markets.

There is not really anything happening here which is structural. I thought it was interesting that in Q2 our domestic incentive fees were up higher than our international incentive fees, which is, I think, maybe the first we've seen that in a while, and looks good and feels good. We know that the managed Residence Inn and Courtyard portfolios in the United States have been under a massive renovation program, which, as we get beyond that and those hotels no longer suffer from the renovation impact themselves, but ramp from that, I think that will be helpful both in terms of the RevPAR performance of those assets, but also hopefully we'll get back towards incentive fees at some point in time in the future. But it's a steady as she goes sort of comment from us at this point.

Steve Kent, Goldman Sachs: Okay. Thank you.

Robin Farley, UBS: Great. Thanks. I just wanted to get a little more color on, we're starting to lower the range for international RevPAR, but maintained the worldwide RevPAR number, should we think of that as that you're more likely to come in the lower end of the worldwide range, or are you feeling more confident about North America? In other words, I'm just wondering why that company-wide range didn't move at all?

Arne Sorenson: Well, I think to be fair, we've now got two quarters in the books at just less than 7 percent, I think. Year-to-date, it's 6.7 percent, 6.6 percent. And so, the likelihood of being -- adding two more quarters at 6 percent to 8 percent, and having the full-year math drive us to high end of that range, I think, is getting increasingly less likely. But we still think 6 percent to 8 percent is the right global set of assumptions for Q3 and for Q4, and we think we'll end up within that range for the full year, which is why we didn't fiddle with that guidance range.

Robin Farley, UBS: But it sounds like maybe more 6 percent to 7 percent than the 7 percent to 8 percent seems fair, right?

Arne Sorenson: Well, I think 6 percent to 7 percent is more likely than the high end of 7 percent to 8 percent, but we're not -- again, business is good.

Carl Berquist: And remember, international on total fees is only about 25 percent of our total fees, with domestic driving 75 percent of those fees.

Robin Farley, UBS: And then, just on that international front, what you reported in the quarter, international luxury looked good in Q2; RevPAR was up 11 percent. I guess, can you talk about when you started to see the kind of inflection point that you're talking about that led you to lower that range today?

Arne Sorenson: Again, to talk about inflection point, I think, is to overstate it. I think what we're talking about is the impact of three or four or five significant hotels which drive those numbers, and they would be concentrated probably in a few Asia Pacific and Middle East markets. And we are not saying with that reduction from 6 percent to 8 percent to 5 percent to 7 percent for international hotels that that should be translated into a view that there is a relative slowdown, which is more thematic than that.

Patrick Scholes, SunTrust Robinson Humphrey: Good morning. Can you tell us what the most recent -- how your RevPAR index has being doing in the last two quarters, and how that's been trending? I think historically you've been around 125 percent. What's the latest on that?

Arne Sorenson: We are up a few tenths year-to-date.

Patrick Scholes, SunTrust Robinson Humphrey: Okay. So --?

Arne Sorenson: And that's both a -- that's a North American number, a US number, mix of all our brands.

Patrick Scholes, SunTrust Robinson Humphrey: Okay. So, pretty consistent, up slightly. And then lastly here, you had, it looks like a termination charge of $12 million. Can you just give a little bit more color on that and -- I'm sorry, a termination fee -- and is that the main driver why full-year owned, leased, corporate housing guidance is coming up?

Carl Berquist: Yes, I think if you look at what we said in our prepared remarks, we said termination fees increased $12 million. The biggest part of that was a $14 million termination fee we received related to one hotel. But I point out that, as I mentioned, in G&A we had about a $7 million charge against that. Little bit of geography between owned, leased and G&A. So, netted to about $5 million then. And that $14 million is part of what's driving the full-year owned, leased and other up for the year.

Laura Paugh: But London and Tokyo are both doing well --

Carl Berquist: Yes, I think the other thing for the full year, Laura points out a good point, is our owned and leased hotels are doing very well, and they are -- that's also another big part of that increase for the year.

Patrick Scholes, SunTrust Robinson Humphrey: Great. Thank you.

Ryan Meliker, MLV & Co.: Good morning, everybody. Just wanted to talk a little bit about system growth. It looks like for two quarters now, the managed room count has gone down, totaling about 2,500 rooms over the past two quarters. And it looks flat basically over the past five quarters. Can you give us any color on what you are seeing -- are you not seeing growth on the managed side, and it's all coming in franchising as you look out to 2014? And then, can you talk a little about conversions, and give us an idea as to, are the majority of conversions that you're going to see coming in franchising or do you think you'll get some of those in managed, as well? Thanks.

Arne Sorenson: Yes. So, I think this is a different story for the United States and the rest of the world. United States, our growth, obviously, in a low supply environment, is CFRST, our limited-service brands, and probably disproportionately Autograph in the US. Those, it shouldn't surprise you, are mostly franchise vehicles. And by and large, we're in a state of the cycle where we're not seeing a lot of new-build full-service hotels. That's where we're most likely to get managed growth.

Obviously, if and when we get the Gaylord transaction closed, which we're still optimistic about that, we'll add a number of about 8,000 managed rooms to the portfolio, which we'll be glad to welcome to our portfolio. And I think those are by and large what's driving that. Now, we have seen -- outside the US, by the way, is overwhelmingly still a managed growth story. Take a place like China, we manage every single hotel that we have in our system.

Ryan Meliker, MLV & Co.: Okay. I think that's helpful. And just to refresh our memories, it looked like, I think, at your Investor Day you talked about roughly 20,000 net rooms through 2014 coming in Asia. How much are we looking at in that 90,000 to 105,000 that you guys are forecasting? Are we talking roughly 50/50 North America versus international, and North America will be predominantly franchised, and international predominantly managed?

Arne Sorenson: That's not far off. Yes. About right.

Ryan Meliker, MLV & Co.: Great. Thank you very much.

Harry Curtis, Nomura Securities: Good morning. Just a couple of quick questions. The first is, if you could drill down a little bit more on your specific RevPAR expectations in China, Asia in general, Europe and the Mideast for the balance of the year?

Arne Sorenson: Let's see. China, Middle East and Europe, we would think Europe will continue to tick along around that 3 percent sort of number. Q3 may be a bit better because of the Olympics, and Q4 may be a bit worse because we don't have anything like the Olympics, which is likely to help Q4. But still, kind of the same rates that we've seen. China, we've been, I think, 10 percent or above year-to-date. I suspect the right set of expectations would be high single-

digit as opposed to a double-digit growth rate for the balance of the year, reflecting probably a somewhat more modest growth rate there.

Middle East, I think, is going to be very interesting. Our team has got some optimism in places like Egypt that we could be pleased to see business coming back a little bit faster than we were planning. On the other hand, we're really wary about building in expectations for places like Egypt which are too bullish. Dubai, by contrast, is very strong. It's a safe haven in many respects in the Middle East, and notwithstanding a substantial supply growth is continuing to post good numbers on the books.

The rest of the Middle East varies dramatically market-to-market. You've got political environments which vary from place-to-place, and economic environments which vary from place-to-place. But I think generally the Middle East ought to be performing reasonably well as the year goes along.

Harry Curtis, Nomura Securities: Okay. And then on my follow-up, related to share repurchase, you got $90 million in the door related to the Courtyard transaction. If you get periods, or if you see periods where you get greater lumps of cash in the door, do you plan on continuing with a more measured approach to share repurchase, or do you have the flexibility to spend that as you see fit, depending upon the price and the cash on hand?

Carl Berquist: Well, what we do is we look out for the rest of the year, look at our cash needs, whether it's capital or what have you, and what opportunities are there, and take into consideration our leverage ratios relative to our credit ratings. And from there we kind of predict out what we think we can buy versus what we need to hold back, so to speak, for known or expected capital expenditures in that. So, it's kind of formulaic that way, but we also take into consideration capital transactions such as the Courtyard one.

Harry Curtis, Nomura Securities: Okay. Thank you.

Will Marks, JMP Securities: Thank you. Good morning. I wanted just to ask about -- in the press release and in some of your prepared remarks you talked about Middle East, for one, as impacting, going from 6 percent to 8 percent to 5 percent to 7 percent international. You didn't mention Europe in the press release. In the comments, I think, did I hear correctly, about 300 basis points less, absent the Olympics and the EuroCup?

Arne Sorenson: No, I think you heard 300 basis points less in actual currency, as opposed to constant currency.

Will Marks, JMP Securities: Okay. So --

Arne Sorenson: Remember, our 5 percent to 7 percent is a constant-currency number, so, that is not reflected by the stronger dollar. The stronger dollar will work against us a little bit. And

just to state the obvious here, when fees get translated into our financial statements, they are in actual dollars, not constant dollars.

Will Marks, JMP Securities: Got it. That makes sense. Okay. And so, is the situation, or is RevPAR in Europe any different from where you saw it a few months ago?

Arne Sorenson: Generally, no. We still see it as -- it's still the weakest big region of the world, not surprisingly, given all the things that they're wrestling with over there. And that's why, when we looked at our budgeted numbers for the year, we were expecting Europe at about plus 3 percent. We told you at the beginning of the year that there was risk in that, and that it wouldn't be surprising if we ended up putting numbers in the books which were zero or potentially even negative. I think we've been really pleasantly pleased to see that we're performing at about 3 percent. I guess it's the brilliance of our team over there, and their ability to forecast.

Will Marks, JMP Securities: Of course. Okay. That's all from me. Thank you.

Felicia Hendrix, Barclays Capital: Hi. Good morning. Carl, did you touch on this, I might have missed this, did you talk about how the – in-the-quarter-for-the-quarter bookings are trending?

Carl Berquist: I didn't, but they're running about 30 percent of our -- are you talking about how much of our mix is in-the-quarter-for-the-quarter, or are you talking about the pricing of it?

Felicia Hendrix, Barclays Capital: Well, more the pricing, and just wondering -- in the past, your in-the-quarter-for-the-quarter bookings have been strong. I'm just wondering if you've seen any change there?

Carl Berquist: They're a little lower than in the first quarter because we have a lot of full hotels because of the booking pace we've been having for the -- that we've been talking about for the last two quarters being up so high. For the full year, we would expect the, in-the-quarter-for-the-quarter to still represent about 30 percent, but the other two-thirds coming from booked the previous year.

Felicia Hendrix, Barclays Capital: Okay, great.

Arne Sorenson: We are seeing increasing ability to drive rate with group bookings.

Felicia Hendrix, Barclays Capital: Yes. Great. And then, just getting back to the Europe RevPAR, and maybe you've touched on this a little bit, but I was just wanting to ask very specifically, Arne, if you could quantify for us how much you think the Olympics is having, what kind of impact or benefit the Olympics in London is having on your international RevPAR forecast?

Arne Sorenson: On the global international? I can't tell you. I think in Europe it's maybe a point for the continent as a whole, at least the way we define our continent, of positive because of London. Which would make it -- Europe is, what, 40 percent of our international distribution, so, I suppose maybe the Olympics drives 0.4 point or 0.3 for the quarter as a whole, something like that. It's not huge.

Felicia Hendrix, Barclays Capital: Yes, okay. That's what I just wanted to make sure. Okay. Those are my two. Thank you.

Shaun Kelley, BofA Merrill Lynch: Good morning, everyone. Just wanted to go back to the question on yield management, and what you guys are seeing in the quarter's RevPAR number. So, Arne, you called out Hawaii, and said that hotels there, your hotels were full. Does that imply that given how good the group side is, you guys are seeing some challenges on the transient side? Or is it just taking a little bit more time to push rate, and specifically any comments on resort markets around that?

Arne Sorenson: Yes, I think -- and this is probably less the case in the resort market like Hawaii than it is in some other more business transient markets, but a couple of things to keep in mind here. One is -- Q2 includes a couple of months which are seasonally very strong, high occupancy months. I think on one level, the success we've had with group bookings and with special corporate bookings, both of which are driven by these sales offices that we've spent so much time talking about over the last year and a half, have driven a higher mix into the hotels from those streams of business. As a consequence, we've had a few less room nights than we would probably like to have for rack rate short-term business.

I think that is overwhelmingly an opportunity. And the opportunity is that we should be able to convert those demand streams into better priced business, not just on the rack rates but including on special corporate when we get to those negotiations in the Fall, and the group business that we're booking now and in the foreseeable next few quarters, if not next few years.

Shaun Kelley, BofA Merrill Lynch: Great. That's helpful. And then the second question to dig back in on some of the international comments, you called out oversupply in China, if I caught it in the prepared remarks, particularly in Sanya and Shenzhen. You guys were just over there, and spent a lot of time with your people on the ground there. Everyone's talked about their China pipeline, just how big they are, and how important it is for unit growth industry-wide. Could you give us just a little bit of a sense of -- how worried should we be about the potential for oversupply, and maybe a little bit of a hangover there if demand softens at all from the supply picture in China? That would be helpful.

Arne Sorenson: I don't think you should be worried at all about oversupply risk in China. You've got the markets we called out, Shenzhen and Sanya. Sanya is on Hainan Island; it's essentially the premier biggest China resort destination, coastal. Shenzhen is in the south, as well, by and large an industrial center, it's where Foxconn has got a big operation. This is a city

that was a few hundred thousand people 20 years ago, and is about 8 million or 9 million people today. So, it is, in many respects, the sort of emblematic story about China's growth. And that place is booming, and it's booming with hotel supply, but it's booming with all of the things that drive hotel demand.

And so, we may see in periods like this quarter, or maybe even over the next couple of quarters, I can't tell you specifically what we're going to see in Shenzhen next month, let alone next year, but we may see periods in which that market is taking in new supply. But the demand is going to continue to grow, and I don't think the supply overhang is likely to be a factor for very long. Compare that to markets like Shanghai and Beijing, which are, obviously, huge destinations. They have had enormous supply growth, and notwithstanding that, they're posting double-digit RevPAR, and that's a sign about the strength.

One other reference point here -- China's probably about 1 million rooms across the country as a whole. The US is 5 million rooms. China will clearly see that 1 million rooms double, and then double again over the course of the next period of time. It's going to imply substantial supply growth year-over-year for a number of years to come, but there's every reason to believe that demand's going to be growing with it.

Shaun Kelley, BofA Merrill Lynch: Great. Thank you very much.

David Loeb, Robert W. Baird & Company, Inc.: Good morning. Carl, this is for you. You mentioned the termination fee, but I wonder if you could talk a little more about the other items you called out in owned, leased and corporate housing, in terms of timing and whether they're recurring? For example, the credit card and residential branding fees, is that also really one-time, or are we likely to see a little more of that in coming quarters?

Carl Berquist: Sure. The branding fees of $5 million that I talked about is primarily timing. And so, we were expecting that coming later in the year. It just came in a little sooner than we thought.

I think the other items I pointed out in there, the termination fee that we received, I talked about that earlier. And then the other thing is our owned, leased properties, especially Tokyo and London, did extremely well. When you look to the full year, our owned, leased properties will be a big piece of the increase that we're talking about in our guidance.

David Loeb, Robert W. Baird & Company, Inc.: And then for my follow-up -- the tsunami BI payment, are you essentially caught up with business interruption?

Carl Berquist: Yes, that was a payment from a utility over there that we received as business interruption. It wasn't insurance, so to speak.

David Loeb, Robert W. Baird & Company, Inc.: Okay, I see. Great. Thank you.

Joshua Attie, Citigroup: Thanks. Good morning. You mentioned targeting high single-digit corporate rate growth for 2013. What gives you the confidence that, in that number, so early in the process, particularly since you're postponing giving full year 2013 guidance until February, presumably to get better visibility?

Arne Sorenson: Well, I don't think our pricing of special corporate accounts have much to do with when we're going to give guidance. But we will -- essentially, what we're talking about for special corporate pricing in the Fall, I think our special corporate customers by and large know that demand has come back, and has come back reasonably strong. And as a consequence, the power in this negotiation has shifted a little bit to the suppliers of the rooms as opposed to the consumers of the rooms because we're going to all be looking at yielding the various channels we've got to get the best rated business that we can get.

Those special corporate rates are still meaningfully lower than they were in 2007 before the recession hit. And as a consequence, this is a bit about negotiating how fast we get back to those rates that we were at before. None of our special corporate customers likes to pay more than they have to pay. So, these will be things that will be negotiated. And your question is a good reminder that we should be careful about putting anything in the books until we get through those negotiations. But we do think it should be a good season for negotiations this Fall.

Joshua Attie, Citigroup: Have you started having any of those conversations yet? With the customers?

Arne Sorenson: Only in the most -- the softest sort of preliminary way.

Joshua Attie, Citigroup: Okay. Thank you very much.

Arne Sorenson: We're not negotiating any of them now, but I think there's some conversations about what the dynamic will look like when we get to it.

Joshua Attie, Citigroup: Okay.

Joe Greff, JPMorgan Chase & Co.: Good morning, everyone. Arne, of the delayed room openings for this year, how many projects does that represent, and how much of this is China? And are the projects that were/are scheduled to open in 2013 -- I know you haven't guided for next year -- are they being pushed out, as well? In other words, is the pipeline of 115,000 rooms going to take longer to open up than what you thought three months ago?

Arne Sorenson: Yes, our best guess today is that we ought to still be able to open the 90,000 to 105,000 rooms in 2012, 2013 and 2014, and we don't think we need to pull off of those numbers. I think the biggest story in this is China, and it's not the only place where there's some impact. But in China, what we're seeing is, with a government-encouraged slowdown in some respects, and again, it's all relative, so, we're not talking about recession environments,

but in a government-encouraged slowdown we are seeing some projects which were previously under construction, where construction has paused. And I suspect that's a dozen hotels, maybe, or a dozen projects, order of magnitude.

Our folks on the ground there are very optimistic that they will be restarted, that when the government gets through the important political transitions which are underway later this year, and continues its focus on developing particularly some of the secondary and tertiary markets, that we'll see these projects resume and move forward. We can't tell you for a certainty that all of that's going to work out in a way that causes the 2012 openings to be opening in 2013, and all of the 2013 openings to also be opening in 2013, or whether it's possible that some 2013 openings will shift to 2014. But we think generally that we're not seeing projects get abandoned, and our partners are saying they continue to plan to get those things done.

Joe Greff, JPMorgan Chase & Co.: Great. And then for my follow-up, based on, say, the midpoint of your guidance for this year, and sources and uses of cash, and assume you return $1 billion of capital to shareholders, where does that put your leverage or net debt position at the end of this year, say, versus the end of the 2Q or at the end of last year?

Carl Berquist: Well, we'll continue to manage our leverage to 3.0 to 3.25 times debt-to-EBITDA. That's what we're targeting for. I don't have a debt number for you right now. But we'll manage to that ratio of 3.0 to 3.25. And that's an adjusted debt to an adjusted EBITDA -- the rating agencies make adjustments to the pure numbers.

Joe Greff, JPMorgan Chase & Co.: Thank you.

Bill Crow, Raymond James: Thanks. Good morning. Arne, I was hoping you could dig in a little bit into the government per diem issue. The rumors and the headlines have been pretty negative regarding next year, and I know we're going to find out something in the next few weeks, but maybe you could talk about the percentage of demand that comes from either government directly or contractors that use government rates. And how much exposure your DC properties in particular have to that?

Arne Sorenson: You're right to ask about DC particularly, because DC would be the market which is most dependent on government and government-derived business, if you will. We think we're probably mid single-digits in terms of percentage of government business in the US, and so, this is relevant, obviously. The conversation coming out of the government is to try and reduce per diems. And as a consequence, depending on how aggressive they are, they may well be pricing their employees at a level where they will not be able to stay in full-service hotels, and they will certainly not be able to stay in full-service hotels in center cities. And instead, will be essentially priced out of the market, and pushed to limited-service hotels in the suburbs, and all the consequences associated with that for their productivity and comfort.

And depending on how hard they push, it's quite possible the government could push too hard and they will hear from their folks that it doesn't work and this will be something that gets

revisited. We're engaged in conversations with the government to try and do the best we can to manage this. I think the only good news is that in many respects we would be, in many hotels, looking at yielding away from government business anyway, because we're seeing higher-rated demand come back both in group and transient travel in a way that in a number of markets would allow hotels that have kind of tried to buttress their performance in a weaker demand time with government business increasingly pull away from that.

Bill Crow, Raymond James: Right. But I guess in DC it would be most impacted, but also the smaller secondary and tertiary markets where you do have a presence, I would imagine military bases, et cetera, would have a disproportionate impact. Do we face the potential then that next year as we go through the quarters we're talking about Washington, DC hurting your RevPAR again by 100 basis points or 200 basis points because of this change?

Arne Sorenson: Well, we gave you the figures on group bookings for Washington for next year because it is actually a substantial piece of positive news. The other bit of positive news we'll have for Washington is just the fact that there will be an inaugural next year, there will be a new administration. I don't mean that. There will be, either a new President or a re-elected President who will be starting a second term, and they will be sort of a fresh start associated with that. That tends to be a reasonably good year for government demand.

And so, we ought to see some positive moves towards DC. But you're right to ask about per diems because as you get to particularly the broader DC market where you're looking at some of the Northern Virginia hotels which are heavily dependent on government business, which is not political but is more like government contract business. That's the place where our fiscal issues in the Federal government will continue to be relevant. And we don't know how they'll get resolved.

Bill Crow, Raymond James: Okay. Thank you. Appreciate it.

Ian Weissman, ISI Group Inc.: Yes, good morning. Just two quick questions. You set a fairly bullish tone for the balance of the year, but I didn't hear you mention anything about concern over fiscal cliff. How does that go? How do you factor that into your thought process on guidance and fundamentals? And do you think it's been an impediment to businesses, booking business going forward?

Arne Sorenson: If you're talking about the fiscal cliff of the expiration of the Bush tax cuts, the Obama employment tax cuts and maybe deficit impact, as well as the government cuts --.

Ian Weissman, ISI Group Inc.: And impact on -- and the potential impact on the economy --?

Arne Sorenson: Absolutely.

Ian Weissman, ISI Group Inc.: And how businesses are basically positioning themselves?

Arne Sorenson: And I would say today that there is no impact of that threat on the numbers we've put on the books or the bookings that we're seeing. And we have certainly not made any effort to factor in a "what if", and obviously we haven't given you 2013 guidance anyway. But I think by and large this is going to be a question about what happens politically, and how that translates into US economic performance in 2013 and beyond.

It may be that it becomes relevant in the fourth quarter, but I doubt it. I think this is much more likely to be a question of how it gets factored into real economic growth, maybe a little bit attitude and sentiment as we're doing bookings in the fourth quarter. But doubtful in terms of the impact to actual Q3 and Q4 numbers.

Ian Weissman, ISI Group Inc.: Okay. And finally, there's a lot of focus, obviously, on the gateway cities. I think last quarter you addressed at least some of the differences between the performance in gateway cities and, obviously, in some of the secondary and tertiary markets you operate in. And you're starting to see healthier operating results in those markets. Maybe you could just talk about some of the Tier 2 markets, and how they have performed to date?

Arne Sorenson: Yes, and I would, rather than be wrong here, I would encourage you to look at the Smith Travel numbers by city, and you've got some interesting dynamics. Chicago has been a reasonably good performer. The West is strong broadly. But I'd look to that Smith Travel, and you can look at it sort of city-by-city, and you'll see what the results look like.

Ian Weissman, ISI Group Inc.: Well, I guess my question is -- are you seeing as healthy a recovery in secondary markets as you are in gateway cities?

Arne Sorenson: I would say, generally, yes.

Ian Weissman, ISI Group Inc.: Okay. Thank you very much.

Patrick Scholes, SunTrust Robinson Humphrey: Last question. I'm going to ask a macro question because I think this is important for the recovery over the overall domestic economy being that the service sector is such a large part. What do you see going forward for the rest of the year as far as property-level hirings? Is that really starting to ramp up now, as far as year-over-year growth rates? What are your expectations for the rest of the year?

Arne Sorenson: Well, that's a good question. I think we will, obviously, see hirings track our openings as the year goes along. And we ought to open into our system, whether it's managed or franchised, obviously will have an influence on who precisely will be doing the hiring, whether it's our franchise partners or whether it's us directly. But we'll end up hiring -- I would think the system would hire a few thousand people, maybe 5,000 people, something like that, associated with new unit openings. This is a US number only.

I think the high occupancy we had in the second quarter is a sign that we're probably also hiring to meet demand as it moves through there. But in Q3, Q3 is not as high an occupancy quarter

as Q2, and so, I don't think occupancy's likely to drive significant hiring in the very, very short term. I think as we go into 2013, we will see that the hiring by and large is driven by new unit growth, and less significantly by occupancy growth, since I think increasingly as the recovery goes forward, we'll see that the shift of RevPAR growth is driven more by rate than it is by occupancy.

As group business grows, though, we will see that we're hiring some folks to deal with the F&B side of the equation. I don't know if that's responsive to you or not. Generally, it's a positive trend in hiring, it's just a question of how positive.

Patrick Scholes, SunTrust Robinson Humphrey: Okay. On your typical, let's say, hotel that's in existence today versus, I guess, sort of peak staffing levels in 2007, how far off are you? How much -- I imagine you have less employees today. Can you sort of quantify -- like percentage, is the average hotel has 5 percent less employees today than it did in 2007?

Arne Sorenson: Typical hotel would be fairly close. I think the permanent reduction in headcount would probably mostly be around management staff, and how heavy that is, and how much we've been able to do above property and do a little bit more efficiently than used to be done on property. But that is likely to affect a relatively small number of people in a hotel.

The restaurant staff and the housekeeping staff and the other key members of the team that are focused on serving our guests, as occupancy has gotten back to, and now beyond, peak levels, so, we're performing at occupancy levels which are in excess of the 2007 and 2008 levels. I suspect we've seen staffing come most of the way back to where it was before.

Patrick Scholes, SunTrust Robinson Humphrey: Great. Thank you for the color.

Carl Berquist: Okay. Well, we all want to thank you for your participation today, and keep on travelling.

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