



**Marriott International, Inc.**  
**Fourth Quarter 2016**  
**Earnings Conference Call Transcript<sup>1</sup>**  
**February 16, 2017**

**Operator:** Welcome to the Marriott International fourth quarter 2016 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to the president and chief executive officer, Mr. Arne Sorenson. Please go ahead.

**Arne Sorenson:** Good morning, everyone. Welcome to our fourth quarter 2016 earnings conference call. Joining me today are Leeny Oberg, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations, and Betsy Dahm, senior director, investor relations.

Before we get started, let me remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release that we issued last night, along with our comments today, are effective only today, February 16, 2017, 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](http://www.Marriott.com/investor).

Before jumping into our results and guidance, let me acknowledge the obvious: we've thrown a great deal of information at you in our press release and in the Form 8-K we filed late yesterday. Collectively, we are challenged by two things. First, the need to bring two companies together and create a baseline for all of us to have to compare our guidance, and then results, against the past. Second, in the first year or so, we will have a number of incomparable or transitional matters, especially around integration costs and the speed with which we capture the G&A and other synergies post-merger. These factors make 2017 a bit noisy. We will do everything we can to help you understand the underlying results and to help you build your models. Thank you for your patience as we work through this together.

We were very pleased with our performance in 2016. We purchased Starwood Hotels and Resorts on September 23<sup>rd</sup>; linked our loyalty programs, Marriott Rewards, Ritz-Carlton Rewards, and Starwood Preferred Guest, on the same day; and immediately began the work to realize synergies in the combination. On a combined basis, we grew systemwide rooms by more than 5 percent, net, in 2016, increased worldwide constant dollar RevPAR by 2 percent, and increased EPS by 16 percent.

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

We are also excited about our prospects for 2017. We expect to grow rooms by 6 percent, net, and we anticipate returning \$1.5 to \$2.0 billion to shareholders in dividends and share repurchases during the year, with likely upside from asset sales. Our RevPAR and unit growth guidance implies an impressive 15 to 20 percent EPS growth in 2017 compared to combined 2016 results.

So, let's talk about the fourth quarter of 2016. Fourth quarter North American systemwide RevPAR rose 1.1 percent, just above guidance. RevPAR growth was strong in Washington, Atlanta, Toronto and Montreal. Leisure business remained healthy across the system, particularly in our luxury brands. Overall, North American retail transient RevPAR rose 5 percent in the quarter.

For our corporate customers, sales to Legacy-Marriott's 300 largest corporate customers in North America rose 1 percent. You may recall sales to these customers were flat in the third quarter. While sales to energy and financial customers continued to weaken, we were pleased that our sales to manufactures strengthened, increasing 4 percent in the fourth quarter.

Group RevPAR at North American hotels declined 1 percent in the fourth quarter. Much of this was due to the calendar comparison as the shift in Jewish holidays pushed group business into the third quarter.

House profit margins for company-operated hotels in North America increased an impressive 50 basis points in the fourth quarter, despite company-operated RevPAR being up only ½ of one percent.

Looking ahead to 2017, we continue to expect a "steady as she goes" economy in North America. For the 2017 full year, North America group revenue pace for company-operated full-service hotels across the combined portfolio is currently up about 3 percent. Roughly 80 percent of special corporate business for 2017 is already priced at a low-single digit rate increase for comparable customers, but we are also signing up more accounts. We continue to aggressively market to leisure guests, and we're adding contract business at attractive rates. At the same time, we continue to see modest levels of corporate transient demand and somewhat hesitant short-term group bookings. Therefore, for 2017, we still expect North America RevPAR for the combined portfolio will be flat to up 2 percent.

The obvious first question, of course, is do we feel more optimistic about 2017 than we did a quarter ago. The short answer is yes. There is considerable data that shows broad expectations for stronger GDP growth in 2017. We have also completed our budgets since our last quarterly call, giving us greater confidence in our range than we had before.

A somewhat larger answer to the question starts with our data. Looking at group booking trends and special corporate negotiations and, of course, at Marriott and industry RevPAR data, we do not yet have clear enough proof that GDP is in fact growing at a higher rate or that the greater prevailing optimism is impacting our basis. For this reason, we have left our guidance

for North America RevPAR at 0 to 2 percent for 2017, consistent with the budgets that roll up from our properties.

Outside North America, RevPAR in the Caribbean and Latin America region declined 3 percent in the fourth quarter reflecting weak economic conditions in much of the region and continued anxiety about the Zika virus in the Caribbean. For 2017, we are modeling a low-single digit percent increase in RevPAR in the region. We expect strong economic growth in Mexico, modest economic growth in Brazil, and improvement in the Zika situation in the Caribbean.

In the Middle East and Africa region, fourth quarter RevPAR declined 1 percent, constrained by a tough oil market, lower government spending, new hotel supply, and concerns about political unrest, offset a bit by stronger results in South Africa and Cairo. For 2017, we are modeling flattish RevPAR growth for the total region.

Fourth quarter RevPAR in the Asia Pacific region increased 1 percent. RevPAR was strong in India, Shanghai and Malaysia while RevPAR was weaker in Hong Kong, Macau and tertiary China markets. For 2017, we expect our Asia Pacific region should see strength in India, Indonesia, Thailand, and Australia, more than offsetting weakness in the Macau and South China markets, yielding a RevPAR increase at a low-to-mid-single digit rate.

And finally, for Europe, fourth quarter RevPAR increased 2 percent with strength in the U.K., Germany, Spain and Russia, somewhat offset by continued weakness in Paris, Brussels and Istanbul. For 2017, we expect a low-single digit RevPAR growth with stronger results expected in Southern Europe and easier comparisons in Paris and Brussels.

All in all, we expect worldwide systemwide RevPAR will increase  $\frac{1}{2}$  to  $2\frac{1}{2}$  percent in 2017, a bit more bullish than our guidance in November.

Owners and franchisees are pleased with the performance of our brands and are developing more hotels under our flags. New owner and franchisee signings last year totaled 136,000 rooms, twice the level of gross room openings, taking our development pipeline to more than 420,000 rooms. If you look at deal approvals instead of signings, our 2016 results included almost 150,000 rooms. Congratulations to Tony Capuano and our development team around the world.

At year-end, the combined Marriott and Starwood brand portfolios accounted for just 14 percent of all industry rooms open in North America, yet, according to STR, we had an industry leading 36 percent of rooms under construction in North America, and 22 percent of rooms under construction worldwide. Financing for new construction remained tight and construction costs are increasing. While STR data for 2016 revealed a 33 percent increase in U.S. industry rooms under construction, the data also show only a 10 percent increase in rooms in final planning. By the way, we have nearly a 40 percent share of those final planning rooms in the U.S. Developers are clearly favoring projects with strong brands.

It's been 147 days since our acquisition of Starwood. Prior to the transaction completion, Marriott Rewards and Ritz-Carlton Rewards adopted several "SPG firsts" for Platinum members, including late checkout, upgrades and concierge services. At transaction closing, we immediately allowed guests to link their Marriott Rewards and Starwood Preferred Guest accounts. In September, we launched our 30-brand worldwide advertising campaign. You may have heard the ads, which we call "You are Here", as you were awaiting the start of today's call. They are currently running in media markets worldwide and can be viewed on Marriott's YouTube channel.

In October, we announced an industry-first benefit for holders of our co-brand credit cards, allowing them to earn bonus points for stays at hotels across all 30 brands. Our owners and franchisees are hearing from us often, thanks to a robust communications platform established in November, and we are hearing from them as well, as many are participating in new owner advisory boards. The first Starwood hotel began to purchase goods and services from Marriott's procurement partner, Avendra, in December and last month we rolled out our guest satisfaction tracking system, Guest Voice, to over 1,300 hotels. We also launched an innovation lab for our Aloft and Element brands at the American Lodging Industry Summit a few weeks ago, to crowdsource real-time feedback on some of the exciting brand enhancements being considered. We expect to showcase these brands again at the NYU lodging conference in June.

At the property level, we are leveraging Marriott contracts to reduce OTA and procurement costs for hotels. In addition, we are encouraging hotels to buy locally and in season to further reduce costs and enhance quality. By the way, our procurement contracts also help new hotel development, as lower prices for equipment and fixtures reduce the cost of new hotels, too.

In revenue management, we have identified opportunities to improve the mix of higher rated business in many hotels. For the Element brand, we believe a greater focus on extended stay sales will improve both the top and the bottom line.

In operations, we have identified opportunities for collaboration among our managed hotels... from negotiating more favorable service contracts for hotels located in proximity to each other... to jointly chasing group leads. We also anticipate savings as more hotels participate in above-property shared-service arrangements.

In our hotel development organization, we've combined Marriott's deal philosophy with Starwood's great brands which we believe will yield more secure and longer term agreements, as well as enhance relationships with owners and franchisees.

And finally, we have seen significant investor interest in our owned hotels. We completed the sale of the San Francisco St. Regis in the fourth quarter and are encouraged with the progress of several other deals. We won't, however, declare victory, or model them into our guidance, until the deals close.

All in all, we are pleased with the pace of integration. Our people are working very hard, but they have made amazing progress. I am incredibly proud of them. The underlying strategy of

bringing these two companies together remains sound and we are excited about the increasing benefits of the transaction for owners, franchisees, associates and, of course, our shareholders.

Now I'd like to turn the call over to Leeny for a review of our financial results and some additional color on the first quarter and 2017 outlook.

**Leeny Oberg:** Thank you, Arne. Good morning. Given this is the first full quarter of combined Marriott and Starwood results, let me take a minute to describe our earnings release disclosures.

Pages A-1 and A-2 of the earnings press release include GAAP reported results, including Starwood's results beginning only September 23, 2016.

Pages A-3 and A-4 reflect the combined Starwood and Marriott business performance in both years. Specifically, the presentation of "Adjusted results" excludes merger-related costs while the presentation of "Combined financial results" exclude merger-related costs and assume the Starwood acquisition and spinoff of Starwood's timeshare business occurred on January 1, 2015. "Combined financial results" also use the estimated fair value of assets and liabilities as of the actual closing date of the acquisition.

We have also provided hotel RevPAR statistics on pages A-8 through A-11. These statistics are prepared on a combined comparable basis, including Marriott and Starwood brands for the quarter and the full year, although we've highlighted only the largest North American brands.

Fourth quarter reported diluted earnings per share totaled \$0.62. GAAP results were constrained by \$136 million of pre-tax merger-related costs, including \$55 million of severance and retention costs, \$59 million of transition costs, and \$22 million of transaction costs. Adjusting for these items, diluted EPS totaled \$0.85, at the high end of our November 7 guidance. Compared to the midpoint of our guidance, we outperformed about 2 cents in fees, largely due to better than expected RevPAR growth and incentive fee performance; about 3 cents on the owned, leased and other line, related both to better than expected owned hotel profit and stronger branding fees from our credit card business and residential sales; and about 1 penny on the G&A line due to lower administrative costs; all partially offset by about 4 cents on the tax line, largely due to a tax rate change in France and an unfavorable mix of earnings.

Fee revenue totaled \$713 million in the quarter compared to combined fee revenue of \$688 million in the year-ago quarter, an increase of 4 percent. Fee revenue was \$13 million higher than the midpoint of our November 7<sup>th</sup> expectations. RevPAR growth was at the high end of expectations for the quarter and operations did a terrific job by increasing house profit margins by 30 basis points worldwide.

Fourth quarter owned, leased and other, net of direct expenses, totaled \$169 million compared to combined results of \$165 million in the 2015 quarter. The flattish year-over-year results reflect higher credit card and residential branding fees and strong results from owned and leased hotels, particularly the newly renovated Sheraton Centre Toronto and the Marriott

Charlotte City Center, offset by lower termination fees and the impact of the sale of Starwood hotels. We outperformed our November 7<sup>th</sup> guidance on this line by \$16 million, due to better than expected results at owned and leased hotels, as well as better than expected branding fees.

General and administrative expenses totaled \$234 million in the quarter, \$4 million better than our guidance and \$50 million better than the prior year combined amount. Compared to fourth quarter 2015 combined G&A, the 2016 fourth quarter benefited from general and administrative cost savings, an \$8 million favorable legal settlement, and \$4 million in net foreign exchange gains.

Depreciation and amortization totaled \$71 million in the quarter compared to 2015 combined D&A of \$81 million. The \$10 million decline year-over-year was largely due to the impact of hotels that were sold or moved to assets held for sale during the year.

To sum up the results, our fourth quarter adjusted operating income of \$577 million meaningfully exceeded our guidance of \$530 to \$555 million.

On the tax line, the fourth quarter adjusted tax rate was 35.6 percent. As I mentioned earlier, the rate was higher than the 32.5 percent expected largely due to an unfavorable mix of earnings in higher tax rate jurisdictions and the impact of a tax rate change in France.

Fourth quarter adjusted EBITDA, which excludes merger-related costs, totaled \$756 million, an 11 percent increase over the prior year combined amount. Full year 2016 combined adjusted EBITDA totaled nearly \$3 billion, 9 percent over the 2015 combined results.

So, let's talk a little bit more about 2017. In addition to our earnings release, we also filed an 8-K yesterday with combined information for our businesses by quarter for 2015 and 2016. It also includes combined RevPAR statistics by quarter for both years. The 8-K disclosures and the 2017 guidance presented in our earnings release reflect a slightly different income statement presentation than the 2016 actuals presented in yesterday's earnings release. In the 8-K and our 2017 outlook, we have re-classed credit card and residential branding fees, which totaled \$210 million in 2016, from the owned, leased & other revenue line to the franchise fee line. We are making this change because we believe branding fees are more akin to franchise royalties than bottom line hotel profits in the owned, leased line. Incidentally, application and relicensing fees, as well as timeshare fees, were historically shown in franchise fees and they will continue to be there, while termination fees will remain in our owned/leased and other line.

For the full year 2017, we expect fee revenue will total \$3.175 to \$3.245 billion reflecting roughly \$35 to \$40 million of foreign exchange headwinds and flattish incentive fees year-over-year. Fee revenue from application, relicensing, credit card, residential, and timeshare totaled \$350 million in 2016. Of this amount, roughly 49 percent was earned in our credit card business, 28 percent came from timeshare royalties, 13 percent came from relicensing and application fees, and 10 percent was earned from residential branding fees. On a combined

basis, we expect these various fees will grow to roughly \$400 million in 2017. These fees typically grow with increasing new hotel development, residential project sales, credit card spend and hotel real estate transaction activity.

In 2017, owned, leased and other, net of direct expenses, should total \$345 to \$360 million compared to \$426 million for combined results in 2016. We expect lower termination fees in 2017. This, along with the lost earnings of hotels already sold, should reduce our results by about \$38 million in 2017. Year-over-year, we also expect the weak Brazil and New York City markets will further reduce our results by roughly \$20 million. Our 2017 owned, leased expectations include \$170 to \$175 million for the 14 Legacy-Starwood owned hotels.

We estimate that a 1 percentage point change in our worldwide systemwide RevPAR outlook in 2017, assuming it was evenly distributed, would be worth about \$35 million in fees and roughly \$8 million on the owned and leased line.

Our 2016 G&A number isn't meaningful given the delays in closing the Starwood transaction and the significant number of positions that remained open during the year as a result. We have estimated a more "normal" combined G&A for 2016 of \$1.08 billion, calculated by assuming a typical 4 percent growth over the combined 2015 G&A amount.

We expect G&A in 2017 will total \$895 to \$905 million, a savings of \$175 to \$185 million over this "normalized" 2016 level, with such savings to be relatively back-end loaded during the year as integration proceeds. We expect to demonstrate a run rate of \$250 million of annual G&A synergies by mid-2018.

We estimate depreciation and amortization will total roughly \$280 million in 2017. Purchase accounting rules provide a timetable of up to one year from the date of the acquisition to update allocations based on new information learned about the asset values as of the date of the acquisition.

As we mentioned in our press release, we expect to adopt Accounting Standards Update 2016-09 in the first quarter of 2017. The amount of the windfall tax benefit will depend on the number of stock awards vested or exercised in the year, our stock price at that time, and the share price when such awards were granted. We have assumed the "windfall tax benefit" will add approximately \$0.10 cents per share to our EPS in 2017, with all of it recognized in the first quarter.

Our earnings guidance assumes a 2017 book tax rate of 30.8 percent, or 32.7 percent excluding the windfall tax benefit. We expect our cash tax rate in 2017 to be roughly 28 percent, excluding the impact of asset sales and transition costs.

All in all, we expect 2017 fully diluted EPS will total \$3.79 to \$3.97, an increase of 15 to 20 percent over 2016 combined EPS. We expect 2017 adjusted EBITDA will total \$3.075 billion to \$3.175 billion, up 3 to 6 percent over 2016 full year combined adjusted EBITDA. We estimate a 1 percentage point change in the value of the dollar, assuming it was evenly distributed among

all currencies, would be worth about \$10 million in EBITDA. Today, one-half of international fee revenue is denominated in just five currencies and we hedge about 1/3 of our exposure in these currencies.

We remain disciplined in our approach to capital investments and share repurchases. Investment spending could total \$500 to \$700 million in 2017, including about \$175 million in property maintenance spending and \$100 million for systems and corporate capex.

We repurchased 8 million shares for \$573 million in 2016. For the full year 2017, share repurchases and dividends could total \$ 1.5 to \$2.0 billion. Successful asset sales could take our cash returns estimate higher. For the full year 2016, Marriott recycled capital totaling nearly \$285 million from asset sales and note collections and, prior to the acquisition, Starwood sold assets for \$316 million.

We continue to expect more than \$1.5 billion in dispositions of Starwood owned assets over the next 24 months, including the \$175 million we received in the fourth quarter of 2016 for the sale of the San Francisco St. Regis. Our approach to selling owned assets reflects the importance of getting full value for the hotel, as well as a strong management agreement and property improvement plan where needed. While we do expect to sell some hotels in 2017, our earnings guidance does not assume we will sell any of these hotels.

As Arne said, our balance sheet is in great shape. Excluding merger-related costs, our debt ratio at December 31 was at the low end of our targeted 3 to 3.25x adjusted debt to combined adjusted EBITDAR credit standards.

For the first quarter of 2017, we are modeling RevPAR growth of 1 to 3 percent in North America, 1 to 2 percent outside North America, and 1 to 3 percent worldwide. First quarter RevPAR will benefit from the January inauguration week in Washington, D.C. and the shifting Easter holiday.

We expect fee revenue will total \$740 to \$750 million in the first quarter. Fee revenue will face about \$6 million in foreign exchange headwinds, a tough comparison to last year's leap year, and a 10 percent decline in incentive fees, largely due to the impact of renovations, recognition of deferred fees in the prior year and timing. Combined fee revenue from application and relicensing fees, credit cards fees, residential fees, and timeshare fees totaled \$88 million in the 2016 first quarter and we expect such fees will be flat in the first quarter of 2017, largely due to a spike in residential fees recognized in the 2016 first quarter.

We expect owned, leased, and other, net of direct expenses, will total \$60 to \$70 million in the first quarter. Year-over-year, we expect \$13 million of lower termination fees and \$4 million in lower profits due to the previous sale of hotels. With the 10-cent benefit of the tax windfall, we estimate first quarter diluted EPS will total \$0.87 to \$0.91.

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



We hope you can attend our New York City Analyst Day on March 21<sup>st</sup>. As you can tell, for now we feel very good about our brands, our business, and our progress in integrating Starwood. Now let's get to your questions. So that everyone gets a chance to participate, please limit yourself to one question and one follow up.

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

**Harry Curtis - Instinet:** Hi, guys. Good morning. I wonder if you could give us some thoughts on the number of brands that you have that – ones that might benefit from some rationalization or consolidation? And if there are any, would that increase the management focus and clarity also for your owners?

**Arne Sorenson:** Thanks, Harry. Basically, the short answer is, we're going to keep them all. We do have a – it's obviously a big portfolio of brands. I think we would acknowledge that if we were starting with a plain piece of paper, we wouldn't necessarily start 30 brands. But having 30 brands that already have distribution with strong owner investment in hotels that carry those flags, and recognizing that our principal tool for going to market is the portfolio and the loyalty programs. We think offering more choices, and in some respects more brands, is a positive, not a negative. To state the obvious, we will, over time, work with our owners and franchisees to crystallize each of the brand positionings as much as possible so that we draw distinctions between them, and we're very much underway with that including with our owners and franchisees.

**Harry Curtis - Instinet:** Very good. And a follow-up on your comments about incentive management fees for 2017. I would've expected them to grow somewhat just given the number of managed hotels, particularly internationally, that you'd expect to open. Can you give us some thoughts about what might be holding the growth of incentive management fees back for this year?

**Leeny Oberg:** Sure. At the end of the day, Harry, we definitely will see some growth, but what you've also got is a bunch of things impacting going the other way. And FX is the biggest one, really, when you look at that, and could be as much as \$15 million year-over-year. And then you add to that, we've got some renovations going on as well as the fact that terminations of some of those hotels also are going to impact year-over-year incentive fees.

**Harry Curtis - Instinet:** Are the terminations – is that a trend that is worrisome? Maybe a little bit more color around that? And that'll be it for me. Thanks.

**Leeny Oberg:** Yeah, no. Really not anything above the normal – kind of the normal trend.

**Robin Farley - UBS Securities:** Hi. Just looking at the percent of your pipeline that's under construction, I think it was 38 percent. That's a little bit lower than either Marriott or Starwood sort of on a legacy basis, as you were usually sort of closer to 50 percent. I'm just curious if

there's anything in particular that is making that look a little bit lower than kind of what it typically might?

**Arne Sorenson:** That's a really good question, Robin. I think pieces of this are about the shift towards more international from domestic. And maybe to some extent, even when you're in the U.S. looking at select-serve assets, probably a shift more towards urban and away from the prototypical suburban assets.

Obviously, the more you get to urban or full-service or international, the more the preconstruction period lengthens because permitting takes a little bit longer, the projects tend to be custom and therefore, the architecture and design work takes a little bit longer. And I think those would be the – probably the principal factors that would bring that percentage down a little bit.

**Robin Farley - UBS Securities:** Okay. No, great. That's helpful. And then just my follow-up is, your projected cost saves from the integration hasn't changed at all from – it seems like you had perfect visibility several quarters before the closing of the transaction. So, I guess I'm just sort of asking...

**Arne Sorenson:** That's really nice of you to say. Music to my ears.

**Leeny Oberg:** Yeah.

**Robin Farley - UBS Securities:** Yeah, so that – it's just perfect. But just curious if you think there are sort of still things to work through. In other words, is every dollar identified at this point? Are there areas that you haven't – I guess I'm just sort of asking in a different way like, if there's potential upside to that?

**Leeny Oberg:** So a couple things, and thanks for the question because it is worth mentioning a little bit about the timing as we think about the way these synergies will roll in. As integration progresses, we definitely will see during the year, we would expect to see the difference between – when you look at the combined a year ago quarter-by-quarter, we would expect that these savings progress during the year and into 2018. So as we move forward, by the time we're kind of in mid-2018, we feel comfortable that, that \$250 million, we can ring that bell. And obviously, we're going to keep looking. This is an ongoing process. It's not kind of a one-stop shop, so we will continue to explore everything we can do. But for the moment, we feel good about the \$250 million.

**Robin Farley - UBS Securities:** Okay. Great. Thank you.

**Joseph R. Greff - JP Morgan Securities:** Arne, you mentioned that part of your confidence or increased confidence or optimism in your 2017 guidance is rooted not just from looking at macro factors, but also from a ground-up forecast and budgeting process with your guys in the field. When you look at that, is there a big difference between RevPAR growth expectations for Legacy-Marriott branded properties versus what you acquired in Starwood?

**Arne Sorenson:** No. There are some differences, obviously, in the distribution of the portfolio. Starwood portfolio still tends to be skewing much more international toward the higher end chain scales. Obviously, their distribution of select-service was less robust than the Legacy-Marriott brands. And so, that rolls up to some extent in different ways through those portfolios. But when we look at like-for-like markets, we see very similar RevPAR expectations.

**Joseph Greff - JP Morgan Securities:** Leeny, you talked about G&A and cost cuts. What's surprising and maybe you can just talk about it somewhat differently is if I look at your 1Q G&A guidance and full year G&A guidance, it kind of implies basically that G&A is sequentially flat on average, 2Q through 4Q versus the 1Q, which somewhat surprised me. Can you just talk about that and what – I guess not driving more of an incremental sequential improvement or reduction in G&A?

**Leeny Oberg:** Well, so first of all, this kind of gets back to how we thought about putting together the kind of more comparable numbers of the – how we think about the improvements in G&A. The combined company numbers, when you look at those going quarter-by-quarter to 2016, you were really looking at a company that was already starting to get some of those synergies as you moved through the year. And so when you look at Q3 and Q4, you had a bunch of open positions and you were actually, in some respects, really getting those synergies in 2016. So then when you look at 2017 compared, we're going to continue to get synergies but again, you're looking at a combined company in Q3 and Q4 of 2016 as frankly, already getting some of those synergies given the merger was kind of semi-closed, not quite closed. A bunch of open positions.

**Arne Sorenson:** I think the other factor you've got going on here is there are, at times through this process, a bit of a step function. So when you look at G&A synergies against the baseline, I think we would say fourth quarter shows more synergies than the first quarter, for example. And it's through the end of the first quarter we will be beginning to sunset some of the transitional efforts that were continued after the date of close. I think we'll also get into early 2018 and there will be a time when we would also sunset some of the duplicative systems. And until we get to those points where we're actually flipping off some of those switches, we don't achieve final phases or the next phase of some of that spending. But Leeny's comment certainly is right. We have some comparison issues here, too, in the sense that we – Starwood started to achieve savings really in the second half of 2015 and both companies in anticipation of the close were already starting to look at synergies in advance of the closing.

**Leeny Oberg:** If you – Joe, if you look at kind of more of the way that I'm describing, looking at the two companies kind of premerger and normalize them with a 4 percent increase for 2016, and use that as your run rate, you will actually see that Q1 we show savings, call it, of 10 percent relative to those numbers. And by the time we get to Q4, we're at 25 percent on a more normalized basis. And that, so you actually are seeing a real progression in the savings, but it's just again, it's depending on what you're comparing them to.

**Joseph Greff - JP Morgan Securities:** Got it. And just one follow-up on that just so I'm thinking about this correctly and not to ask you to provide guidance for beyond this year, but just think about it in the big picture. Would you expect that incremental of \$70 million of G&A synergies that, if we think that you finish this year at \$900 million in G&A, does that grow with inflation and then you reap the benefit of \$70 million? Or is there any incremental inflationary pressure to think about looking ahead to modeling that G&A number?

**Leeny Oberg:** Well, so a couple of things. We are, in many cases, talking people here, so we are talking the reality of people that will be continuing to help us put the two companies together. But I will also say that as you get through 2018 that by the time we're in the third quarter of 2018, I think you will see the run rate reflect kind of the savings that we've talked about.

Now, the timing of some of these integration costs of exactly – we call them wind-down, they're not perfectly predictable. So, kind of exactly the \$250 million with 3 percent inflation, we'll have to see how that goes. But we're determined, when we think of it, as \$250 million in 2017 dollars that obviously then overtime will grow. But I would expect that it's more kind of in the back-half of 2018 where we've kind of really been able to say the companies from a fundamental running standpoint are truly integrated and combined.

**Joseph Greff - JP Morgan Securities:** Thank you.

**Jeff Donnelly - Wells Fargo Securities:** Good morning, folks. Leeny, this first question is concerning the \$1.5 billion of asset sales you referenced. How many of those assets are with brokers are actively being marketed today? And is there a rule of thumb you can give us on sort of gross first net proceeds we should expect to the extent those are sold? I'm just thinking about things like taxes or any sort of mortgage debt or things that would impact net proceeds.

**Leeny Oberg:** Sure. Well, we're obviously talking to folks in the market about all of them. So these were assets that were in many cases under active discussions before the transaction closed and as a team, we continue to march forward and then on several, but at that point, we're not – we're talking to folks in the market.

Now, they're obviously all in various stages because each of the assets is different and each has its – kind of a separate situation whether you've got to look at ground leases or kind of elements that you're comparing on the PIP, et cetera. So, I can't really give you a prediction in terms of timing of the asset sales, but we do continue to feel good about the environment and good about our ability to get it done in the timeframe that I described. The other thing I would say, on the gross versus net proceeds is, they're going to really vary. They're going to vary quite a bit asset-to-asset and I would say that a good proxy to use is about 20 percent. But again, I will say that could be very different asset-to-asset.

**Jeff Donnelly - Wells Fargo Securities:** Okay. And then just second question is, I don't know if you guys might have...

**Leeny Oberg:** Just to be clear, we've actually – when we think of our cash flow model, we've been taking that into consideration all along.

**Jeff Donnelly - Wells Fargo Securities:** Okay. Thank you. And just one other question is – New York experienced something of a unique and maybe unanticipated lift in November and December that's continued a little bit into this year. And some folks think it's like a post-election bounce, and others kind of attribute it to sort of short-term – like, new legislation against short-term rentals, like Airbnb. I guess my point is, to the extent it was the latter, legislative-related, the implication is that Airbnb has actually had a stronger impact on the hotel industry than maybe has been originally surmised. I was just curious if you had any color or insight on some of those trends? And maybe do you guys think differently about maybe what drove some of the lift in New York in the back half of 2016?

**Arne Sorenson:** I think we remain generally cautious on New York, and that's not really about an Airbnb impact either before or more recently in the wake of some of the legislative activity that's been underway. New York was, in our fourth quarter, just slightly negative on the top line. I think our expectations for 2017 would be that New York would remain ever so slightly negative, not positive. That is actually remarkably good performance in some respects, given that we've got supply growth at nearly 5 percent in both 2016 and 2017, which would suggest basically that we've got demand growth growing at nearly the same pace. And when you look at the last few months of last year, you look at what's happening in January, these are historically fairly soft periods. I think it is dangerous to draw many conclusions from them about nature of supply and demand in New York including the impact of shared economy platforms. Obviously, we'll continue to monitor that as we go forward, but we would expect that we will continue to have a pretty modest performance.

**Jeff Donnelly - Wells Fargo Securities:** Okay. Thanks, guys.

**Smedes Rose - Citigroup Global Markets:** Hi. Good morning. You touched on this at the beginning, so I'm sorry if I missed it, but I noticed that the pipeline, while it's still obviously very large, was flat sequentially, and typically you show growth on a quarter-over-quarter basis. And I was just wondering if you could touch on that, of why it was flat?

**Arne Sorenson:** Well, we do – every year, we do a careful culling of the portfolio, the pipeline, as we get to year end to make sure that they are reflective of deals which are very much still in progress. Obviously, it was the first time we had a chance to do that since closing the Starwood transaction. I don't think we brought different standards to bear than we've brought historically to it, but we did cull a number of thousands of rooms out of that pipeline in the fourth quarter as we got towards the end of the year.

**Smedes Rose - Citigroup Global Markets:** Okay. And then I wanted to ask you, too – you mentioned that asset sales could bring in additional cash over the course of the year. Is there also an opportunity for some sort of loyalty program monetization that we've seen? I think Starwood had to deal with Amex several years ago, and Hilton talked about it a little bit yesterday on their call. Is that something that you might look to do this year or next year?

**Leeny Oberg:** Absolutely. As you probably remember that we've talked about before, we've got two co-brand credit card partners, SPG with Amex, and JPMorgan Chase Visa for Marriott Rewards. And as we think about combining the loyalty program over the long run, we obviously are in discussions with both of those companies about these co-brand credit cards. So we'll be talking to them this year, re-looking at the entire deal between the companies. One credit card agreement expires in 2018, the other one expires in 2020. And we're very excited about the – frankly, the possibilities there, but wouldn't be in a position to be able to quantify anything at this point.

**Smedes Rose - Citigroup Global Markets:** Okay. Thank you. Appreciate it.

**Patrick Scholes - SunTrust Robinson Humphrey:** Morning. I don't know if you've gone over this yet. I'm just curious on your raise for the international RevPAR, specifically what locations are driving that? And secondly, is it partly driven by the strength of the U.S. dollar with Americans traveling internationally going into your assumptions? Thank you.

**Arne Sorenson:** Yeah, those are all good questions, and I think it probably starts with neither of those suggested answers but simply that we have done the budgets. And a quarter ago when we did our earnings call, we were of course, had started the budget process and was looking at the data that we had. But since that point in time, all of our teams around the world have had a chance to build these budgets from hotel-by-hotel perspective.

I think the – if you compare beyond that to sort of general expectations, we're maybe a bit more bullish in Latin America and optimistic that the Zika epidemic is getting behind us in terms of its impact, at least. It's obviously not over. And maybe we're just a tinge more optimistic about Europe too, although that is an up-and-down market. You've got places like Istanbul, which are in a world of hurt and other places, which seem to be performing a little bit better. On average, I think those two markets would probably be the place where we have a slightly more positive view.

**Patrick Scholes - SunTrust Robinson Humphrey:** Okay. Thank you.

**Thomas Allen - Morgan Stanley & Co.:** Hey. Good morning. Just, Arne in your prepared remarks you talked about how energy and financial customers weakened in the fourth quarter. Can you just elaborate on that comment? Just seems a little strange given the dynamics in those markets.

**Arne Sorenson:** Yeah, I think the – there might be one place where the greater optimism would hopefully come to pass. You look at energy and finance, I think there is some optimism that the energy patch bottomed and that while we may not be seeing strong signs of a rapid recovery out of that level that we're not necessarily seeing further decline. I think we did see further softness in Q4, but the anecdotes and the comments that are coming out now are a bit more encouraging. I think secondly with respect to finance, matters are changing so quickly, almost on a day-to-day basis, but it's really the first of the year where you start to get this building

momentum that there will be strong regulatory relief in the financial world and the optimism that is in some respects derived from that. If that optimism shows up in greater performance of those two segments of our economy, obviously that will be good demand from those customers.

**Laura Paugh:** And it was encouraging to see manufacturing turn up after being weak for a very long time.

**Arne Sorenson:** That's right.

**Thomas Allen - Morgan Stanley & Co.:** Thank you.

**Shaun Kelley - Bank of America Merrill Lynch:** Hey. Good morning, everyone. To – maybe just to touch once more on the synergies and I apologize, because I know this can be a little bit confusing probably for this type of Q&A, but just specifically, Leeny, as we think about the baseline of \$900 million of kind of combined G&A for 2017, I guess the question we keep coming back to is, is they really closer to the \$65 million to \$70 million of remaining opportunity or because the baseline is higher, I think we did the math on that kind of \$1.080 billion that you talked about and grew it a little bit. We'd be coming out a lot closer to only maybe \$25 million remaining. Again, not trying to get you to give us guidance or explicit guidance but just trying to understand of those two ranges, which one is probably closer to what's remaining?

**Leeny Oberg:** Yeah, I think your first one. Your first one.

**Shaun Kelley - Bank of America Merrill Lynch:** Okay. Great.

**Leeny Oberg:** I think the larger number is the better and more accurate way to both look at it and to what we expect.

**Shaun Kelley - Bank of America Merrill Lynch:** Perfect. Thank you. And then my second question is – the other question we've gotten from some folks is a little bit around the EPS guidance and specifically wondering could you just give us a little bit more color on your thoughts around sort of the both buyback timing and perhaps just general cadence because I think for some people they're probably expecting maybe their slightly larger buyback assumption or more importantly a different weighting as you thought about it across the year and obviously it's got an average impact in that number. So just any thoughts around sort of how you thought about that or modeled that would be helpful.

**Leeny Oberg:** Sure. Absolutely. So as you know, predicting the timing of asset sales is pretty difficult. So that's the main reason that we wanted to basically give you guys a model that assumes no asset sales. And obviously, to the extent that we're having asset sales during the year, that could obviously change the impact and the timing of share repurchase for the year. But when you think about other than that, I would say, probably relatively speaking the way we do it would be fairly steady during the year and wouldn't surprise you.

The only counter to that, I would say, is that as you remember, we do have cash balances that we are going to be able to avail ourselves of, if you think about where we were at the end of Q3. And when our balance sheet comes out, you'll see the cash number has come down by about \$200 million that we've been able to avail ourselves of cash.

And I'll use that opportunity to tell you guys that it's likely that the 10-K will be filed after the weekend, a little bit later than our typical filing, because of the all the purchase-price accounting work that we've got to do, we want to make sure that we've buttoned everything down so it will be a few days later.

But when we think about those extra cash balances that we do expect to be able to have available to us for general corporate purposes, and end up the year, end up 2017 with a more normal, call it, \$200 million to \$300 million level of ongoing working capital cash needs. I would say, we think that we'll have the use of that cash in the first half of the year rather than the second half of the year, which would give you a little bit of weighting towards the first half in share repurchase. But other than that, pretty much steady as she goes.

**Shaun Kelley - Bank of America Merrill Lynch:** Perfect. Thank you very much.

**Felicia Hendrix - Barclays Capital:** Hi. Thanks, and good morning. So, Arne, in your prepared remarks earlier you gave us some nice color as to the reiteration of your RevPAR growth in North America, flat to up 2 percent. I'm just wondering, what do you need to see to get more bullish with that guidance? Is it just as simple as acceleration in GDP? Or are there other things? And then, I was also wondering how much corporate transient demand growth you would need to see in order to get to that high-end or even above of your North America RevPAR growth target?

**Arne Sorenson:** I mean, obviously, upside can come from any one of the drivers of our business. Group, or business transient, or leisure. I think when we look at the year from today's perspective, we would say leisure feels the strongest to us. Probably then group, and probably then business transient. Again, business transient, if it improved, that would be a positive thing. I think the beginning of your question was, what you need to see before you start to articulate some sort of upside? GDP tends to strengthen a bit before it shows up in our business. In other words, we lag probably a little bit, not massively, but it could be a month or two or three, something like that.

I think we're going to be cautious about claiming that we're in a different world until we start to see, either through bookings or through the stayed-and-paid actual RevPAR numbers, the kind of performance that would allow us to say, you know what, actually, that optimism is proving to be real. And we just – I think today you can, if you want to go out and find anecdotes to prove a point of view that things are better, there are some anecdotes out there. But if you actually go and look at the data with a cold, clear gaze and say, are you really seeing the kind of data that would show that our business is performing differently than we thought a quarter ago? We don't see that clarity yet.



**Felicia Hendrix - Barclays Capital:** Okay. That's helpful. I appreciate that. And just since you guys – the transaction's closed, I'm wondering what you've learned regarding the Sheraton brand? And when do you think you'll be able to be making changes there?

**Arne Sorenson:** We are already engaged. We pulled together our U.S. owners, for example, full-service owners in November or early December, I've forgotten the precise week. But pretty quickly after we closed the transaction. And that's a group of a few hundred of our principal owners of managed hotels and owners and operators of franchised full-service hotels. Won't surprise you to know that a big chunk of that conversation was about the Sheraton brand, and particularly with the owners of the Sheraton assets, to engage with them about where that brand should go. And that is about defining brand standards, but doing it in a way that's collaborative with them. And then it is about making sure those brand standards get implemented. And implementation means that for hotels that don't meet those standards, we move with due speed - I'll talk about due speed in a second - to either get them on to brand standards, or to get them out of the Sheraton brand.

Due speed, I think, means not that you can publish a brand standard and then a month later start to have a public execution because that would not be fair to our partners in this. These partners are extraordinarily important to us. They need to have some time to understand those standards to assess whether or not it is economically rational for them to meet them. And if it is, given the opportunity in order to make arrangements for the financing and make arrangements for the work actually to get done in order to meet those standards. I suspect, however, we will see in 2017 that some of the hotels that are most obviously at the bottom end of the brand; in other words, they didn't meet whatever standards were in place already; they don't meet any likely standard that we end up with, that we'll see that renovations actually occur in some of those or some of those actually leave the system. So we are expecting to see some progress being made in 2017.

**Felicia Hendrix - Barclays Capital:** And then, once you kind of go through that process, how long does it take to cycle through your financial performance?

**Arne Sorenson:** I'm not sure if I know exactly what you mean by that. I think – obviously, the RevPAR index numbers are non-GAAP, so they're not coming through our P&L but they are a really important measure of the way a hotel is performing against its competitive set or the way a brand is performing generally across the market. The Sheraton RevPAR index is a bit lower than fair share, not massively but a couple of points maybe below fair share. And we're going to try and move those numbers steadily from here, including hopefully, some progress in 2017.

Obviously, our fee contribution from those hotels will rise, not just with market RevPAR performance but with whatever index growth we can take. Offset, however, by whatever loss of fees we will experience by the deletion of hotels that don't meet that standard. So, we'll work through that. Everything that we can predict with some clarity is built into our 2017 model. When you get into years 2018, 2019, 2020, that's obviously an area where we will try and illuminate more when we're at – together for our Analyst Conference in March. But we'll just continue to keep you updated as our thinking evolves with that.

**Felicia Hendrix - Barclays Capital:** Okay, great. So this seems like a catalyst for a little bit in the future.

**Arne Sorenson:** From your lips.

**Felicia Hendrix - Barclays Capital:** Okay. Thanks.

**Stephen Grambling - Goldman Sachs & Co.:** Hi. Thanks. Good morning. This is a little bit less of a modeling question, but Arne, I've heard you talk about how critical the richness of the travel and lodging experience is and will be in driving the business. While I recognize combining Starwood and Marriott is a huge task on its own and people are rightly focused on those cost synergies, what are the key benefits and opportunities you're excited about longer term from combining these two organizations as it relates to the customer experience specifically?

**Arne Sorenson:** Well, I think – the two things I would call out there are loyalty and then the emotional power of the brand portfolio. So the loyalty program, SPG and Marriott Rewards are absolute juggernauts. We have been – we've talked about this in a number of prior calls and in other contexts, but we have been very impressed by the enthusiasm and the dedication that the SPG loyalists, particularly, the elites have to their program. We see in it a sort of comparable level of commitment that we've seen in the Marriott Rewards program for many, many years. And while Leeny talked about credit card companies, we've also got great partnerships with the timeshare companies. We've got a technology platform that we've got to work through. What we can build with this loyalty program we think is going to be extraordinarily exciting and should help us draw a broad connectivity to a very large group of customers and a higher share of wallet from their travel. And that's long-term upside for the company.

I think the second thing is around the brand portfolio. And it's obvious to all of us, Starwood in many respects with the launch of W nearly 20 years ago was the first big company to get into the lifestyle space. And that brand continues to be a very strong one. You look at the pipeline of hotels that are coming into that brand, it is both strong and they are extraordinarily exciting hotels. But then you look at not just Aloft and Element, which Starwood added also in the lifestyle space, but you look at EDITION, and Moxy, and AC Hotels and the number of entrants that we brought into the lifestyle space as well. And when you think about luxury and lifestyle particularly, these are places that travelers, when they dream about travel and when they think about the experiences they most intensely want to have, they are focused on brands like that. And I think the strength we'll have in that space when combined with the loyalty program should really enable us to not just work on the nuts and bolts of the integration but really on the emotional connectivity to the traveling public. And that, as you can maybe tell from my comments turns us on.

**Stephen Grambling - Goldman Sachs & Co.:** Fair enough. That's helpful. As a quick follow-up on the loyalty program specifically, how should we be thinking about the timing of the joint

kind of program going forward? Is that tied to the credit card negotiations or are you thinking about it otherwise?

**Arne Sorenson:** It's tied to all of it. It's tied to all of it. I mean, we obviously got to get – the technology work is underway, there are two separate technology platforms and we've got to do the work necessary in order to have one platform. It is possible we could have one platform with two different programs sitting on top of that platform depending on where we are with our partners.

We've also then got a whole bunch of questions around the customer proposition, the programs have somewhat different rules around qualification for Elite level, around the Elite bonuses, around other things and we want to work through with our customers. And then of course, we've got the credit card and timeshare companies. And there are some issues which are relationship driven and some that are contractual driven. But we're going to work through those. You certainly should not expect that we will have one program anytime in 2017. Whether we will in 2018 is something we will work to maximize the chances for, but we don't have a date to give you yet.

**Stephen Grambling - Goldman Sachs & Co.:** That's very helpful. Thanks again, and good luck this year.

**Arne Sorenson:** Thank you.

**Ryan Meliker - Canaccord Genuity:** Hey. Good morning, guys. I know it's late so thanks for taking my question. Yeah, I just wanted to ask a little bit about, I didn't think I heard it in your prepared remarks, the member pricing initiative. I guess a couple of things related to that. Number one, are you seeing any impact on RevPAR growth? Obviously, I would imagine it would be negative because of the discounting aspect, that's showing up over the past quarter or two. And then number two is, if you are, are you seeing any type of opportunity for RevPAR growth to maybe reaccelerate as you lap some of that impact later this year? And are you getting the benefits you are looking for in terms of being able to increase the loyalty program members?

**Arne Sorenson:** Yeah, it's an interesting question, particularly the latter half of that. I think it's going to get harder and harder for us to have a calculation about what the impact of member-direct rates are, in truth. We – the last two quarters have talked about a roughly 30-basis-point impact to RevPAR, so that would have been in Q2 and Q3 2016. But the closer you were – we were to implementing that program, the more you had some sort of current baseline data, which allowed you to do some calculations. The farther you get away from it, you start to already have a bit of a difficult time knowing exactly where the booking would have come otherwise. And we're now in a business in which essentially these member-direct discounts are common across all the branded platforms.

So our principal competitors are doing the same thing. That makes assessing what it would be like if we didn't have it more and more difficult to do. We are encouraged by the growth in sign-

ups to the loyalty program since we've rolled out the member-direct rates by the awareness of these kinds of discounts, which we remain convinced will drive good behavior, from our perspective, from our customers and the way they book. And as a consequence, I suspect we'll see that this continues much as it is in its present form.

Does it impact? Do we lap it at some point? I suppose we do. I suppose in Q2 we start to lap it. But again, our calculation was 30 basis points or thereabouts in Q2, so it's not a massive number. And whether its additive or not, sort of Lord knows. I guess I would say it's built into our model, but I'm not necessarily sure that we focus precisely on that question either.

**Ryan Meliker - Canaccord Genuity:** Okay. That's helpful. And then just as a quick follow-up, you guys talked a lot about asset sales. Thanks for giving us an indication on San Francisco St. Regis as well. Have you thought at all about portfolios? Obviously, REIT stock prices have come back pretty meaningfully. Seems like there might be an opportunity to do a bigger portfolio transaction, but it also might come with a REIT, other than maybe one or two that might need to pay in the form of stock. Would you be willing to, A, do a portfolio transaction? And should we expect one? And then, B, would you be willing to accept stock for a transaction?

**Leeny Oberg:** So thanks for the question. We certainly are willing to entertain all comers and happy to listen to anybody who's got an idea, and have thought about that. And frankly, we've spoken to a number of potentially – investors that would be interested in either part of, a partial portfolio or all. As you might imagine, in many cases, those are international buyers. But the reality is, we've got a really interesting kind of diverse group of hotels, and whether they are located in Buenos Aires or Canada, or they have ground leases or they have PIP needs – every single one of them has its own story. And I think we are now fairly firmly – never say never, but fairly firmly of the view that it's going to be much more onesies and twosies, is going to be the best way to maximize the value of this portfolio.

**Ryan Meliker - Canaccord Genuity:** Okay. And then willingness to accept stock?

**Leeny Oberg:** Again, we haven't contemplated that. I would say, not very.

**Arne Sorenson:** I can't imagine that even if a buyer had to use stock that we'd necessarily have to take it.

**Leeny Oberg:** Yeah.

**Arne Sorenson:** They can figure out a way to put the stock in the market the same as us.

**Ryan Meliker - Canaccord Genuity:** Fair enough. Just wanted to make sure I understood correctly. Thanks a lot.

**Leeny Oberg:** We're looking for cash.

**David Beckel - Sanford C. Bernstein & Co.:** Hi. Thanks a lot. I just wanted to quickly touch back on terminations that were mentioned as a headwind to IMF growth. I think last quarter, you mentioned that you expected unit growth, but not – I don't think there was any mention of terminations. So first question would be, did anything change? And then, how big of a drag related to terminations do you expect this year? And should we expect a, sort of, persistent drag based on your earlier comment going forward?

**Arne Sorenson:** We won't have anything to say this morning about future years, but our expectations for 2017 are about the same number of – deletions is actually probably a better word than terminations from our system. We've been experiencing roughly a point, I think Starwood was a bit more than a point.

**Leeny Oberg:** We're a little bit under.

**Arne Sorenson:** We were a little bit under, they were a bit over.

**Leeny Oberg:** Yeah.

**Arne Sorenson:** And we still think that's about the right area. Now those stories, they are one hotel at a time. The most typical deletion is a hotel that doesn't meet our standards, and it does not make economic sense for it to be re-invented to meet our standards. And so we take it out. Now, we don't take it out without consultation with our owners and franchisees. But we essentially work towards taking that out of the system so that it can land someplace else in the probably lower tier of the hotel business typically. There are other circumstances in which we're subject to termination from an owner who doesn't want to keep us, or who is selling it to somebody else and they have different plans for it. And so, every story exists in this, sort of, annual model, but it's not at different levels, at least that's what we're anticipating in our guidance. It's not at different levels than what the company has experienced in the past.

**Laura Paugh:** And, David, keep in mind that when we talk about unit growth on a net basis, we're really addressing it there.

**Leeny Oberg:** Yeah.

**David Beckel - Sanford C. Bernstein & Co.:** Right. Right. No, that's really helpful. I appreciate that. And just as a quick follow-up, if I could, I don't think we discussed the effect of travel ban at all. I think, Leeny, you had mentioned something last night, but could you just fill us in on what you're seeing with respect to maybe corporate traveler or corporate planners and their reaction to the travel ban and how that may or may not impact their plans going forward?

**Arne Sorenson:** Yeah, we don't have a lot of data yet that would say that this is a big deal in terms of stayed-and-paid experience in our hotels. Obviously, the seven countries that are called out in the Executive Order are not places where there's a lot of travel that comes to the United States. And obviously too, the Executive Order has been suspended by a ruling of the court, so it's not in effect. We, as a consequence, don't think that by its terms, it's a massive

deal. Now saying that, we should stop and pause for a second. You've got individual stories of families who've been waiting for a long period of time to get visas or other permission to emigrate. And for them, there is no bigger story in the world than having those rights up-ended and uncertainty sort of race back into their lives.

Having said that, there is a broad sense, particularly across the Middle East but across much of the world that the Executive Order is a really big deal and that the symbolism is wrong and that it is effectively a communication from the United States to the rest of the world that you should anticipate that either you're not going to be welcome here or that you may have difficulty getting in. And we think that's what has motivated the handful of stories that we've heard about already, which are typically group stories. And they are not, of course, international groups where folks are saying, you know what? I'm not sure I want to take the risk of trying to bring an international group into the United States, whether it'd be for a wedding or for a meeting because my whole group may not be able to get in.

And so, we have some anecdotes about folks who have reached out to us and said, you know what? Rather than focus on that hotel in the U.S., why don't we look at what you've got in Canada? Or why don't you look at what you've got someplace else? And if we're hearing a handful of those anecdotes already – I'm sure there are a number that we're not hearing, which are groups who had not yet contacted us but who are not – would have contacted us were it not for this Executive Order. But instead are maybe going directly to one of our hotels in another country or they're simply deferring their efforts to plan that business.

So again, I don't think this is a measurable impact today. I don't think it is necessarily a substantial impact. I wouldn't expect, by the way, that it would have much impact on business transient at all because that tends to be the kind of business that – kind of travel that is most resilient. But I do think it is a place where to the extent we need to do things around security or around immigration, we should do them quickly so that we can get back to communicate to the rest of the world that subject to the revisions in the world's – in those policies, we really want people to come here and see us and do business here and vacation here and take back their fond memories to their homes.

**David Beckel - Sanford C. Bernstein & Co.:** That's really helpful. Thanks.

**Richard Hightower - Evercore Group:** Hey. Good morning, folks. How's it going? One question this late in the call, a little high-level question. As you think about your North American RevPAR guidance of flat to plus 2 percent, can you give us a sense of how that breaks down among, say, the top 10 markets, the top 25 and outside the top 25?

**Arne Sorenson:** No. [Laughter]

**Richard Hightower - Evercore Group:** Ok then.

**Leeny Oberg:** New York and Miami, clearly.

**Arne Sorenson:** Yeah, we talked about New York as being kind of flattish, so I would expect that, that is towards the lower end. But we've got – I mean, we've got that by market. I'm not sure it's terribly constructive to tick through all of those.

**Richard Hightower - Evercore Group:** Oh, no, I didn't mean market-by-market but just kind of a gateway versus non-gateway sort of question boiled down. And if not, we can discuss it offline.

**Arne Sorenson:** Yeah, why don't you give Laura and Betsy a holler on that. Let's see if we can help you navigate that.

**Richard Hightower - Evercore Group:** Okay. Thanks.

**Arne Sorenson:** Thank you.

**Bill Crow - Raymond James & Associates:** Hey. Good morning. Thanks for staying on late here. Hey. Arne, I want to take one more shot at the G&A topic. If we just set aside the synergies, assume you're going to achieve those, how do you gauge the absolute level of G&A expenditures? And I'm curious whether your company as it continues to sell assets, you've exited timeshare, increased the focus on franchising relative to management, whether you've got an opportunity to maybe reengineer G&A to a lower absolute level, even after these synergies are completed.

**Arne Sorenson:** Yeah, it's a good question, and I think there are a number of different answers to it. Leeny has been very strong in helping guide the company through this area, before close and after close, and trying to build models, which essentially say, here is what we think we have capacity to spend and here's what we think we need to spend. Both those questions are relevant and they're different questions. And has essentially allocated around the business allowances, if you will, for the level of effort we think would be required to run this bigger platform. And that is, of course, it was influenced to some extent by our target to get to the \$250 million of synergies. It also guided our settling on \$250 million as a number that seemed to work. And so that planning is a piece of it.

I think a second piece of it is simply listening to our teams and sensing the level of intensity and their demand for more resources, which obviously comes up frequently in companies all around. I would say one other thing, and that is I think in this last recovery, looking over the last three to four years, Legacy-Marriott has really done a fine job keeping admin cost growth at very, very low levels, and if you look over a 25- or 30-year period of time, where G&A has grown at meaningfully higher than 3 percent-ish kind of growth rates through other economic recovery cycles, in this one, we've been keeping an awful lot of focus on this, and keeping the growth rates down. And I suspect we'll continue to do that.

Even when we can ring the bell to use Leeny's phrase, about hitting that \$250 million target, we won't be done. We'll continue to look for efficiencies in the platform. I don't think getting rid of owned assets is likely to be terribly significant by itself because the bulk of our spending is about running a global public company, governance reporting, et cetera, that relates to that. It

is about overseeing thousands of managed hotels and thousands of relationships with owners of managed and franchised hotels, and it's about the work we've got to do to refine and strengthen brands and provide the oversight of all of that. And that's not work that is likely to get any more intense in the years ahead.

**Bill Crow - Raymond James & Associates:** Okay. All right. I'll leave it there. Thanks.

**Arne Sorenson:** Yeah.

**Jared Shojaian - Wolfe Research:** Hi. Good morning. Thanks for squeezing me on here. So as you look to integrate your loyalty programs within the next year or two, are there any incremental costs associated with that? And do you anticipate any challenges in this process?

**Arne Sorenson:** Oh, there are plenty of challenges. The technology and the partnerships would be probably where we would start. I think we've got good relationships and we've got good plans, and so we're quite optimistic about being able to navigate through all of that. But it's a lot of work, and don't hear our confidence as being a sign that it isn't. Because we've got many people that are focused on this and getting it done right. Are there any costs associated with it? There are, of course. I think the bulk of the costs associated with it, like the bulk of the costs of the program are really paid for by the system as we go through it. We need to make sure that those costs don't balloon and harm our owners and so we're doing everything we possibly can to manage that. But I wouldn't expect this to be a sort of regular impact to our P&L. Other than through the upside of hopefully larger share of wallet.

**Leeny Oberg:** I would say the synergies, at the end the day we see much more upside than we do downside in terms of on the cost and revenue side related to loyalty.

**Jared Shojaian - Wolfe Research:** Right. Okay. Thank you. And then just a quick follow-up on your credit card comments. I realize you don't want to talk about any future contribution from any reworked deal. But can you just help me size up the current agreements? So if you're doing \$3.1 billion in EBITDA in 2017, how much of that is coming from your current credit card agreements?

**Arne Sorenson:** We said in the call, about 49 percent.

**Leeny Oberg:** Right. So, about 49 percent of the \$350 million that we talked about being this kind of pot of fees that are not tied directly to the RevPAR of hotels. And so, if you say roughly half of that is coming from the credit card relationships. And those are again, those are driven by credit card spend.

**Jared Shojaian - Wolfe Research:** Got it. Okay. Thanks again.

**Wes Golladay - RBC Capital Markets:** Hey. Good morning, everyone. There has been a little bit of uptick in optimism, but what are the hotel revenue managers thinking right now? Are they still going with the defensive heads-in-bed strategy?



**Arne Sorenson:** Yeah, I think so. We mentioned in the prepared remarks that we are adding some special corporate accounts to what we had last year. We think it is sensible to do that. Really what we're doing is we're running the business with an expectation, so this is about cost management, it is about driving top-line with an expectation that we're going to continue to slug it out in a pretty low-growth GDP environment. If there is strength in GDP, it's all upside. But if there is no strength in GDP, we want to make sure we're delivering the best results we can.

**Wes Golladay - RBC Capital Markets:** Okay. Thank you.

**Arne Sorenson:** You bet. Okay. Well, thank you all very much for your time and attention and bearing with us. We know we've thrown an awful lot of data at you, so by all means, give us a holler back if we can be helpful to you. Safe travels.

**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 or annual report on Form 10-K. Risks that could affect forward-looking statements in this document include changes in market conditions; changes in global and regional economies; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and the extent to which we are able to successfully integrate Starwood, manage our expanded operations, and realize the anticipated benefits of combining Starwood and Marriott. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of February 16, 2017. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.