Marriott International, Inc.
First Quarter 2013 Earnings Conference Call Transcript[1]
May 2, 2013

Operator: Welcome to the Marriott International first quarter 2013 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the president and chief executive officer, Mr. Arne Sorenson. Please go ahead.

Arne Sorenson: Good morning, everyone. Welcome to our first quarter 2013 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, May 2, 2013, 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.

Our financial results in the first quarter were terrific. Transient business was very strong, particularly non-qualified, or retail-rated business, as we eliminated discounts, pushed business into the higher rated categories and raised rates. Leisure business during weekends and spring break was robust, especially at our Florida and Caribbean resorts and luxury ski getaways. We saw 2007-level occupancies at most of our brands.

For our company-operated Marriott Hotels and Resorts brand, transient RevPAR increased 8 percent with strong demand in Miami, Houston and San Francisco. In contrast, Marriott group revenue in the first quarter was significantly impacted by the shift in the Easter holiday. First

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

quarter group RevPAR was up only 1 percent, but including the month of April, year-to-date group RevPAR is expected to increase roughly 6 percent.

While transient business was strong, government business declined in the quarter. Systemwide across North America, we estimate shrinking government business, both transient and group, reduced our first quarter RevPAR growth by 60 to 70 basis points. Last year, government-related business made up about 5 percent of roomnights across our North American system.

In light of the fact that a quarter ago we highlighted the potential negative impact of the sequester on our business in 2013, let me take a few minutes to address a few government issues. First, the 60 to70 basis point impact to our Q1 RevPAR from declining government business is likely to be more than just the impact of the sequester itself. Government has been under pressure to cut spending for some time and this impact reflects the total impact of the decline in government group and transient volumes from last year. We expect a continuing negative impact to our RevPAR throughout 2013. While the world seems to have moved on from the sequester, we continue to believe that better results will flow to our economy if a thoughtful, bipartisan budget deal can be crafted to replace the blunt instrument of the sequester.

Second, we have been pleased to see the momentum building for immigration reform in the Administration and on the Hill. The time is right. In terms of fairness and economic impact, the benefits of immigration reform are obvious.

Third, we were pleased to see this morning the President's nomination of Penny Pritzker as Commerce Secretary and Michael Froman as U.S. Trade Rep. These are important government positions and deserve to be occupied by talented, energetic leaders like these nominees. We want to especially congratulate Penny Pritzker. We know she knows the lodging industry. We think both these nominees are good candidates and we urge quick confirmation by the Senate. Remember, travel is trade.

Now, let's get back to our results in the first quarter.

For company-operated Marriott hotels, association group business was very strong in the quarter. Typically booked years in advance, first quarter association group attendance exceeded our expectations and association bookings for 2014 and beyond were very strong.

Long-term corporate demand was also healthy. Corporate group bookings made in the first quarter for full-year 2014 were up 22 percent. In fact, in the last 12 months, our 2014 revenue booking pace increased from -4 percent to +5 percent, in part due to strong corporate and association demand.

To be sure, while long-term demand is very robust, we are seeing less short-term corporate group business in our hotels. Why? We believe today's "in-the-year-for-the-year" corporate customers are feeling a bit uncertain and cautious, likely due to government austerity, higher taxes on the consumer, and stubbornly high unemployment. We are watching this trend carefully but also note that we've seen few corporate cancellations; little attrition; and our funnel of new, but unsigned, group bookings remains healthy. And, as I said, long-term corporate bookings are strong. For all group customers, booking pace for the remainder of 2013 for the Marriott brand, as an example, is up 4 percent.

Outside North America, systemwide comparable RevPAR rose 4 percent on a constant currency basis. RevPAR growth in the Middle East was double-digits. The UAE was a bright spot, attracting "cold weather weary" Europeans in the first quarter. RevPAR in the Caribbean and Latin America increased over 7 percent, led by Mexico, which was up nearly 16 percent. Our resorts in Puerto Rico, Aruba and the Cayman Islands RevPAR also saw double-digit growth.

In Asia, constant dollar systemwide RevPAR increased 3 percent with very strong RevPAR growth in Thailand and in Indonesia.

Weak economic conditions in Europe slightly reduced systemwide constant dollar RevPAR in the region while RevPAR in the U.K. declined about 5 percent reflecting weak demand and tough comparisons to last year's run-up to the Olympics. Comparisons will get easier in the U.K. when we get to the fourth quarter.

Around the world, our Ritz-Carlton hotels had an outstanding quarter. North American RevPAR increased 9 percent and outside North America, constant dollar RevPAR was up 11 percent as strong luxury demand hit limited luxury supply. A favorable mix of transient roomnights, as well as price increases, continue to move room rates higher. Our development pipeline of Ritz-Carlton hotels stands at 31 hotels today implying more than 35 percent growth over today's worldwide Ritz-Carlton system. And virtually all of our Ritz-Carlton pipeline is outside the United States.

We've made significant progress on the integration of the Gaylord brand. As of the end of the first quarter, the brand had transitioned to our Rewards program, adopted our property management and revenue management systems, and joined our global sales organization. Improvements in operating efficiency remain a work-in-process, but we see considerable opportunity to leverage Marriott's scale. We are still rolling out the Marriott procurement program, as an example.

Turning to development, lending is gradually loosening for new limited-service hotel development in the United States, but only for worthy projects. At the same time, hotel supply growth in North America and Europe remains very low. At quarter-end, our worldwide hotel development pipeline hit a new record, more than 135,000 rooms, with more than 62,000 rooms under construction.

Measured by number of hotels, we are clearly taking share. Based on STR hotel pipeline data, our new hotels under development, as a percentage of our current hotel portfolio, shows faster growth in each of the United States, Asia and the Middle East regions than our significant public competitors. And our development pipelines in Caribbean/Latin America and Europe are highly competitive.

I just got back from the grand opening of the new Marriott in Whitefield, a suburb of Bangalore, India. From meeting the associates there, I know the Marriott culture is alive and well, even 9,000 miles from our headquarters. Today, we have 18 hotels in India representing five brands with more than 45 hotels in our development pipeline.

India is a microcosm of what we are doing in markets around the world, combining strong global brands with local sensibility. As we enter emerging markets, we typically establish a beachhead with luxury and upper-upscale hotels. But to achieve scale and long-term growth, a strong market presence with a broad brand portfolio is crucial. We are introducing Fairfield in India, Fairfield in Brazil, Courtyard in Mexico, Courtyard in China, and the MOXY brand in Europe to achieve that scale with designs that reflect our high global standards while appealing to local guests. Thirty years ago we demonstrated the power of customer segmentation in the hotel industry when we introduced Courtyard. Segmentation was phenomenally successful in the U.S. and we are confident that approach will be even more successful around the world.

We have strong, differentiated brands and tremendous economies of scale. But success is never final. We want to be more “consumer-driven”, closer to the customer around the world, more attuned to the next generation traveler and much faster to market.

In recent years, we announced new lobby designs, restaurant concepts, group meeting offerings, and even new brands. In fact, later this year, you’ll hear us talk more about the coming changes in the Marriott brand. You’ll also hear us talk more about brand introductions in new countries. So stay tuned.

We believe the investment case for Marriott is clear. Expanding our share of rooms in an environment of modest supply growth, increasing global travel, and high occupancy rates all imply a long period of strong room rate increases, margin expansion and fee growth, particularly incentive fee growth. Our business model should allow for investors to reap that growing profitability with high returns on investment. To further discuss the first quarter numbers and to update our outlook, here is Carl.

Carl Berquist: Thanks, Arne.

As I’m sure you are all aware, this is our first quarter under our new fiscal calendar. Thank you for your patience as we make this important transition, and special thanks to the many finance associates here at Marriott that continue to make the transition from a 13-period year to a calendar year so successful. They are doing a fantastic job!

For the first quarter 2013, diluted earnings per share totaled $0.43, ahead of our guidance of $0.37 to $0.42. We beat the midpoint of our first quarter EPS guidance by about 3 cents. Roughly 2 cents came from better than expected fees, particularly incentive fees in North American full-service hotels. Two cents came from better than expected branding fees and termination fees; a penny from better than expected taxes; and these were offset by 2 cents in higher G&A. Our guidance beat was not related to the change in our fiscal calendar.

Total fee revenue reached $370 million including incentive fees of $66 million. We estimate roughly $6 million of the incentive fee improvement in the quarter was associated with our longer first quarter.

Incentive fees exceeded our expectations largely due to strong performance among our full-service hotels in the U.S., particularly in New York and Florida. Worldwide, one-third of managed hotels paid incentive fees in the quarter compared to 29 percent in the year-ago quarter. In North America alone, approximately one-third of the full-service managed hotels paid incentive fees compared to one-quarter in the prior year.

House profit margins at company-operated hotels in North America increased 170 basis points. These margins are not adjusted for the shifting fiscal calendar so they aren't comparable to our calendar quarter RevPAR stats, but we were pleased with the performance. In fact, we expect roughly 150 basis points of margin improvement for the full-year.

Owned, leased, and other revenue, net of expenses, totaled $36 million in the quarter. We estimate the longer fiscal quarter had minimal impact here. Branding fees from our credit card and residential real estate sales totaled $25 million in the quarter compared to $16 million in the prior year. Leased hotel results were down slightly, reflecting softer results in London and the costs associated with a lease termination. Compared to our expectations, we outperformed in part due to $3 million of termination fees and some timing.

General and administrative expenses totaled $180 million in the first quarter compared to $147 million in the prior year. We estimate approximately $15 million of the year-over-year increase was associated with the longer fiscal quarter; $2 million of the increase was due to a revised estimate for compensation paid in 2013 but associated with 2012; $3 million came from unfavorable foreign exchange, including the currency devaluation in Venezuela; and about $3 million came from an increase in amortization of key money, largely due to the Gaylord transaction. Our higher overhead costs in the first quarter also reflected our organization's rapid growth outside the U.S., and spending on new hotel development.

For Marriott International, our adjusted operating profit margin, excluding the impact of reimbursed costs, increased to 38 percent in the first quarter from 34 percent in the 2012 quarter. We repurchased over 5 million shares during the quarter and over 8 million shares through the end of April.

Looking ahead, we expect second quarter RevPAR to increase 5 to 7 percent in North America as we benefit from the shifting Easter holiday, strong seasonal occupancy and further room rate improvement. Outside North America, we anticipate RevPAR will increase 2 to 4 percent and, given trends in Europe and Asia, probably at the lower end of that range. Asia Pacific RevPAR should grow at a low single-digit rate, reflecting weak trends in Seoul and Beijing. We expect flattish RevPAR growth in Europe, low single-digit RevPAR growth in CALA, and high single-digit RevPAR growth in the Middle East.

For you modelers, we estimate the shift in fiscal calendar will add approximately $20 million to second quarter operating income.

All in all, we expect second quarter operating income will total $275 to $295 million and diluted EPS will total $0.55 to $0.59.

For full-year 2013, we expect worldwide systemwide RevPAR to increase 4 to 7 percent. Fee revenue could increase 8 to 12 percent.

We expect owned, leased and other revenue, net of direct expenses, will decline 9 to 15 percent for full-year 2013. As we discussed last quarter, our leased hotels in Europe face a weakened economy and our leased hotel in London also has a tough comparison to last year's Olympics. We will also be renovating two leased properties in 2013, which will be disruptive to results. And, we expect lower year-over-year termination and residential branding fees and higher pre-opening costs.

We expect our general and administrative expenses will total $675 to $685 million in 2013. The increase from our prior full-year guidance is largely due to first quarter performance.

All in all, we expect fully diluted EPS will total $1.93 to $2.08 in 2013, a 12 to 21 percent increase from 2012. Excluding the impact of the $25 million after-tax gain on the sale of our Courtyard joint venture in 2012, this is a 18 to 27 percent increase year-over-year.

Compared to our prior 2013 guidance, we've picked up about 2 cents per share on better fee revenue and a penny from our owned, leased, and other line. Higher G&A is offset by lower interest expense and a favorable tax rate.

Our cash flow is very strong. For full-year 2013, we expect EBITDA to total roughly $1.2 billion. Investment spending could total $600 to $800 million, including about $100 million in maintenance spending. We will remain disciplined in our approach to capital investments and repurchases and expect to recycle capital. In fact, we expect to return $800 million to $1 billion to shareholders through share repurchases and dividends this year.

We appreciate your interest in Marriott. So that we can speak to as many of you as possible, we ask that you limit yourself to one question and one follow up. We know there is considerable sell-side coverage and even more buy-side interest in Marriott, so we expect to stay as long as you want to answer your questions.

Question and Answer Session:

Ryan Meliker, MLV & Co.: Morning, guys. I just had -- I think a lot of your color up front was really helpful in terms of understanding how numbers flowed in the quarter. I had a little bit of a bigger picture question, though, was hoping you guys might answer for me. You guys have done a lot of transformation across your select service brands, really bringing up the quality of the product. I guess it is not just you guys, it's probably a lot of your competitors too. I'm just wondering what you are hearing from most of your big clients in terms of the disparity in product offering between a Courtyard and say a traditional Marriott. Are you moving away from the traditional Marriott that, say, isn't group focused, say under 400 rooms, and trying to shift those more toward Courtyards or SpringHills or even Fairfields or even more upper end to the Autograph collections or EDITION, et cetera? Just want to get some color in terms of how the development, particularly in the U.S., is unfolding, given what seems to be a little bit of a shift in the customer base where they seem to be more open to staying at you select service properties.

Arne Sorenson: It's a good question, Ryan. Part of the problem is we have talked more about Courtyard as an example than we have about our full-service brands. In part because particularly when you look at the managed portfolio of Courtyard we have probably close to 300 Courtyards we manage. Average age, I would guess is 20 years, maybe a little over 20 years. The first generation Courtyards were built and they were nearly identical, and so we could look at those as a portfolio and roll-out a renovation essentially that would be nearly uniform from hotel to hotel and could be done in a programmatic basis. In fact, we had 70 Courtyards under renovation in the first quarter of 2013 and we are fast approaching the point where every Courtyard in the United States will have the new refreshing business lobby. And increasingly, we are getting rooms renovations rolled off that portfolio, too.

At the same time, there is a lot going on in the core Marriott brand with, Host is our biggest owner, Host has done a really fine job in many of their Marriott hotels to make sure that they are renovated and up to snuff. But in part because the brand is made up of a less uniform group of hotels; in other words, they weren't built in groups of 50 or 75 but often were built one at a time. There is less of a programmatic renovation that is underway. We are not moving away from the core Marriott brand, but I think we will intensify some of the communications and programmatic renovation work that we anticipate over the course of the next few quarters, and we will communicate with you much more about that as the year goes along.

Ryan Meliker, MLV & Co.: Great. Thanks a lot.

Robin Farley, UBS: I'm trying to think about what the takeaway should be on your commentary on North America because your guidance actually was raised a bit at the bottom end. So, a little bit more optimistic. But I guess I'm trying to square that with your comments, getting -- your comments about the closer in business on the corporate side being a little bit softer. I wonder if you could help square that?

Arne Sorenson: Yes, I think thematically, the guidance we are offering now is essentially the same as the guidance we offered a quarter ago. We have brought up the lower end by half a point, but I think that is mostly a function of the number we actually delivered in the first quarter. So, as we look at the balance of the year, we looked at the low end of that range that we had a quarter ago, and to get to that low end would require a really kind of pitiful performance between now and the end of the year, which we just don't think is likely, obviously. We are also hoping that that doesn't happen. And so I wouldn't view that half point lift of the bottom end as being a sign of a meaningfully different view today than we had a quarter ago.

I think we would say today, as I think we said a quarter ago, that what we see is a steady, broad recovery in the economy and as it impacts the lodging business with demand growth and increasingly powerful shift to rate growth. And that is the strongest bit of tailwinds that we've got impacting our business. The caution is, this is not a recovery which has got a free for all robustness. I think generally we see our corporate clients spending, not cutting back, getting back on the road, but not necessarily throwing all caution to the wind and saying we are going to do whatever we want to do and not be thoughtful about the risks which are still apparent in the economy, particularly because of high unemployment and Europe and some of those sorts of issues. So, it is a steady and broad recovery, but it's got an element of caution to it. And I think on balance, that is the same view that we had a quarter ago.

Robin Farley, UBS: So, your outlook is not really expecting any kind -- I assume you are expecting continued kind of softness in the short-term corporate group?

Arne Sorenson: Well, again, the biggest point here is that the recovery is steady and it is broad, and we expect that to continue to come. If you find the places where there are a bit of proof of the caution, we would say it was probably around short-term group bookings in Q1. And as we comb through our data, the bookings that were actually made in February for the near-term were soft. But, during the same month of February, when you look at total bookings that we made for the next 12 months and then for 2014, the next 12 months after the next 12 months, they were actually up from the prior year. And so that tells us that we've got a recovery which continues to have strength, but again, it is not a free for all recovery.

Robin Farley, UBS: Thank you.

Joel Simkins, Credit Suisse: Couple quick questions here. Obviously, you stepped up the leverage a little bit on the balance sheet, given some of the buyback activity. Ultimately, where do you continue to feel comfortable with from a leverage perspective? What would tilt you to exceed the $800 million or, let's say, come to the high end of $800 million to $1 billion in capital return for 2013?

Carl Berquist: I think we'll continue to manage our cash flows to a 3 to 3.75 type leverage ratio that we've talked about before. We don't see a need or any reason to go beyond that or under that. That is working pretty well, given where the economy is. As far as -- so we'll stay in that same neighborhood. And that is a defined term relative to adjusted EBITDA with adjusted debt.

As it relates to the $800 million to $1 billion to return to shareholders, we continue to look at that. A lot of items that could occur, depending on how much we recycle in 2013, will drive if that number goes up some, as well as if opportunistic investments come up that we didn't see when we had the $600 million to $800 million that we talked about in capital investments, could also have an effect on that number. But right now, as we look out for the rest of the year, the $800 million to $1 billion looks like it is still a good number.

Joel Simkins, Credit Suisse: If I may, one quick follow-up. You mentioned earlier some new brands, I'm just curious what kind of traction you are seeing with EDITION right now. I sit across the street from one that's being constructed here in New York, so I see that going up on a daily basis. Just curious where that's tracking at this point.

Arne Sorenson: It's a beautiful building, isn't it?

Joel Simkins, Credit Suisse: Yes.

Arne Sorenson: Thank you. Actually, EDITION is building momentum. We will open in London, I suspect right after Labor Day. Miami will open early next year and New York probably late next year. But beyond those three deals that we are doing on balance sheet, I think we've got a pipeline now of about a dozen. So the balance would be made up of third party deals, heavy mix in Asia, but we are seeing folks excited about the projects that we are doing and impressed by the commitment we have made to the brand, and we've got some good optimism about its future.

Nikhil Bhalla, FBR Capital Markets: Morning everyone. I had a question about just the government impact. So, it seems like per what the government is directing, all the federal agencies, they want the level of cutbacks to kind of hold through 2016 over and above, I think, the base that they said it was, 2010. How do you see that playing out the next couple of years? Is this going to be headwind that's going to be there for 2014 and 2015? Thank you.

Arne Sorenson: Well, Lord knows. I think the optimistic view would be that 2013 will limp through with respect to government business at about the kind of pace we are doing now and obviously, that is clipping a bit the kind of RevPAR growth that I think would be posted otherwise. The good news, I suppose, in that is that government business has already declined to a point where it is becoming less and less significant. And if they don't continue to cut from these levels, which I am hopeful would be the case, we should see that by the time we get into 2014 and beyond, the comparisons are much easier and there is no reason to believe the government business couldn't at least be flat, if not marginally positive.

At the same time, I think we would confess that we don't really know. We have got -- the nearest news is that maybe the debt ceiling date might be slipping into late summer or early fall. That would be about the time when budgets typically would be focused on and looked at and -- or we are congenitally optimistic maybe that maybe we'll get to a point where we get something that's balance and long-term in its focus and I think optimistic that it shouldn't continue to hurt us more than it has hurt us already.

Nikhil Bhalla, FBR Capital Markets: Got it. And just on booking pace, it's about 4 percent right now for the rest of the year, I think it was more like 6 percent as of the last call. Looking at your 2Q guidance, doesn't see if you are seeing any softness in 2Q. Is the concern more on the back half of the year?

Arne Sorenson: Well, it's probably, Q3 is the relatively weaker time for group business generally. You are talking about the bulk of the summer being in that quarter. I think we'd be a bit more bullish about Q2 and about Q4 because of that kind of seasonality. But again, we've talked about how group business was only up 1 percent in the first quarter, but if you include April and as a consequence, get through that Easter comparison, it looks like about 6 percent for the first four months of the year. And all things considered, that's not bad.

Nikhil Bhalla, FBR Capital Markets: Sure, thank you very much.

Steve Kent, Goldman Sachs: Hi, good morning. Just to continue that line of questioning on booking pace. I think the part I'm struggling the most with is your booking pace for 2014, where it looks like things are pretty strong, up 5 percent. And I don't understand why corporate confidence would be high for 2014, but not high for 2013, which is closer. Is it because we also have a much smaller base in 2014 that the numbers look bigger?

Arne Sorenson: Oh, that is a good question. No, I don't think it is fundamentally because it is a lower base. It is a bit lower, but it is not dramatically lower. By this point for 2014 we probably have 40 percent, 45 percent of the group business on the books, I would think. And so we are building that book and obviously, by the time we get to the end of the year, we should be something closer to 70 percent. Actually, we could be 50 percent-ish now, maybe low 50 percent for the total business for 2014 that's already on the books.

I don't think it is that so much, but Steve, your question is a good one. Our guess is that, again, we don't have corporations which are frightened about the future. We think they are growing. They are growing profits and they are back in business in many respects. And probably the longer term bookings, both A, require more time to confirm the space, so there is a bigger risk if they don't book, and secondly, they're probably among the more important meetings that corporate groups hold --corporate clients hold. And the shorter term stuff has probably got a bit more of the discretionary element into it. And so that -- in that discretionary area, the bit of caution which is still out there, the bit of uncertainty that's -- whether it is coming from Europe or high unemployment, whatever, that probably is having a bit more impact on the short-term than the long-term.

Steve Kent, Goldman Sachs: Okay, thanks.

Chris Agnew, MKM Partners: Good morning. Question on China, you called out, I believe, a low end of 2 percent to 4 percent growth, and given the government transition and easier comps in the second half, I guess, I'm a little bit surprised. Two part question, if I may? First, maybe an update on your thoughts on the government transition in general. And then second, and a little bit more specifically, because we are hearing the government are encouraging officials to be low key and more austere. Any sense if this is a temporary phenomenon or a more of a structural and permanent change? Thank you.

Arne Sorenson: China continues to be a favored market of ours. We think the long-term prospects for China are fabulous, and maybe an indication of that is we've got as many hotel rooms under construction today in our development pipeline for China as we have already open. I think we signed 10 full-service hotel deals in China in the first quarter alone. And we see, particularly in these secondary cities, a clear need and a clear commitment to see that they are developed in a way that allows them to grow and be as compelling places for people to live as the Shanghais and Beijings of the world, and all that should be really helpful to us long-term.

I think in the short-term, we've got two things going on. One is the transition of government and the government's focus on some continued austerity around government spending particularly. And that is continuing., and it is continued now long enough after the announcement of the government transition that I think our expectations would be it will be sticky and will stick around for a while. The other thing that's happening is we've got easier and easier comparisons as the year goes along, and I won't remember this exactly off the top of my head, but I think first quarter of 2012, RevPAR growth in China was about 10 percent, 10 percent or 11 percent, something like that, and by the fourth quarter, we were in the 3 percent or 4 percent range. It was essentially a straight line down.

So, the comparisons for the second quarter will still be reasonably tough. By the time we get to the fourth quarter, it will be meaningfully easier, certainly than in Q1. And then, of course, you've got other little issues around the edge. Little -- I shouldn't say little, because that probably minimizes them more than they should be. But obviously, in January we had lots of global press about pollution in Beijing, and Beijing was meaningfully weaker than Shanghai was. I think the pollution was a piece of that, and I think the focus of government on Beijing and its austerity was probably a piece of that. We are watching carefully to see what happens with the bird flu stories and whether that has an impact. There is thus far a few anecdotes, but we don't really think it is showing up in RevPAR numbers in a material way, but we'll watch all that. I think still long-term, the story is a really exciting one for China.

Chris Agnew, MKM Partners: Great. Thank you.

Joshua Attie, Citigroup: Good morning. Of the owned and leased profits of $36 million in the quarter, almost 80 percent of that, it seemed, was credit card, residential branding and termination income. I know there is a lot of variability quarter to quarter with some of those, but can you give us a sense for what the components of that owned and leased profit line item should be on a longer-term or on an annual basis? I guess how much of it is recurring leased hotel profits and credit card fees versus more lumpy items, because the quality is obviously different.

Carl Berquist: Sure. If you look at that line, I think we give some detail in our 10-K or 10-Q, I don't have the numbers right here in front of me. But probably the credit card branding fees are pretty stable year in and year out, growing based on volume and that but not real choppy. Whereas the residential branding fees, we get paid those fees on the closing of the residential, primarily the Ritz-Carlton branded residential. So, that is choppy, and will, depending on timing of when the residences close and how many are in the pipelines, so to speak, that will continue to be choppy.

I think this quarter and probably for the rest of the year, a lot of our leased hotels are located in Europe. And with Europe's current economic situation, our leased profits that are coming out of there are pretty anemic right now. And then on top of that you have London, as I talked about, where you have very tough comps. And then on top of that, we have a couple of leased hotels, one in Europe, one in the Caribbean, that are very big hotels, but they are going to have significant renovations. So, that is going to make it a little choppy as well as we go through the rest of this year.

Arne Sorenson: I think one thing to keep in mind on the owned leased portfolio of hotels is the largest number of hotels there are leased hotels and so you get, depending on coverage of the lease payments, you can get zero net profit contribution or you can go up, obviously, meaningfully from that. So, you've got -- it is a pretty highly leveraged number, yes.

Joshua Attie, Citigroup: And the $3 million termination fee, I know it is small in the context of the Company, but was that a hotel that was important to the system? Or can you just give us some detail on what that was?

Carl Berquist: Actually, it was -- there are two different ones in there, so it is not that big. The bigger part of the two was a second payment, a continued payment we got from something that closed in a prior year.

Joshua Attie, Citigroup: Okay. Thank you.

Felicia Hendrix, Barclays Capital: I have a question on your incentive fees, which were very nice in the quarter. Not to get ahead of ourselves here, but if we look back historically, and this is going to be a number of years back, but last time you were in kind of that high 20s range and started to ramp. Within a few quarters you ramped to 30 and then 40 and then on. I know we are in a different environment now, and I'm talking percentages. I know we are in a totally different environment now than we were then, but can you help us think through, particularly in North America on the incentive fee business side of things, where owners are in terms of their hurdles?

Carl Berquist: Sure. Well, good news was that we were up on incentive fees, and it came from North America full-service hotels. When we look where it's at, it is New York, the resorts fit extremely well. Remember in the first quarter the resorts had two holidays. They had the year end as well as Easter. So, we benefited from that.

I think that what we are going to see is it is probably going to be choppy as we go through the year because the growth isn't as accelerated, as Arne mentioned earlier. However, we are getting a lot of the growth in RevPAR from rate, and that is helping margins at the hotel. You saw in the first quarter margins improved 170 basis points. So, I don't think we are going to see the acceleration that you are referring to that we saw in the past, but I think it will continue to grow. Keep in mind, when you are looking at the percentages of hotels, you still have all those select service properties that we've talked about in the past that dilute that number down a little bit.

Felicia Hendrix, Barclays Capital: Thank you for that color. Arne, I believe it was -- yes it was this week. This week has been a blur. A competitor announced a cloud-based property and rate management system for its franchise base and other independent brands and potentially larger chains. I'm sure you noticed that announcement, and given your large franchise network, I'm just wondering if this announcement interested you as a Company? Is this a technology you would be interested in replicating? And how do you view this announcement competitively?

Arne Sorenson: You are just trying to prove how little I know about technology Felicia, aren't you?

Felicia Hendrix, Barclays Capital: [Laughter] Someone there must know...

Arne Sorenson: We obviously have been paying attention to this flurry of earnings releases from our industry this week, and haven't looked at it in detail. I'm not sure that what they are doing has any particular application in our system. We do have, obviously, a number of systems that support our properties, including a property management system, which we are working -- we are well advanced with our owners and franchisees on, moving forward with the next evolution of the property management system that we have in place. And of course, we've got reservations platforms and other things which become much more proprietary the more you get close to the actual booking of the rooms. We'll keep our ears open, but I don't think that it's a new relevant fact for us.

Felicia Hendrix, Barclays Capital: And would new franchisees to the Marriott system be allowed to have the choice to use your systems versus someone else's?

Arne Sorenson: In most significant -- with respect to most significant systems, the answer is no.

Felicia Hendrix, Barclays Capital: Okay, thank you.

Shaun Kelley, BofA Merrill Lynch: Hey, guys. Maybe I'll start with a follow-up on the question on incentive fees. Carl, could you just give us a sense of is -- has your outlook for that at all changed? Because the language, at least in the release, was a little bit more optimistic. Is that a little bit better in terms of full year than you probably had thought at the beginning of the year?

Carl Berquist: We are thinking -- we are probably thinking mid-teens growth for the full year. It will be up in the U.S. We'll get more, Europe will be down a little bit, we think. So, when everything all averages out, we are thinking probably mid-teens growth this year.

Shaun Kelley, BofA Merrill Lynch: Okay so not really dramatically different from probably where you were probably last quarter, right?

Carl Berquist: More like fine tuning.

Shaun Kelley, BofA Merrill Lynch: Got it. And then the second question, Arne, in the prepared remarks, I didn't catch much on EDITION, but I know you are getting closer to opening at least one of the owned hotels. Could you talk a little bit about the opportunity to push forward that brand and secondarily, to maybe recycle a little capital out of those hotels? And is that in the outlook for the $800 million to $1 billion of cash flow for this year?

Arne Sorenson: Yes, I mentioned a few minutes ago how the nearing of opening of these three hotels that we are doing on balance sheet and the commitment that we've made through those three hotels has impacted the development pipeline, and I think there is lots of good stuff happening for EDITION globally. These three hotels are leading it, but there are good things that are following behind it. All of that we are encouraged by. I think as we get closer to opening of London, we get to a place where we can start to talk more specifically about the prospects for recycling. We obviously intend to sell all three of these assets for internal planning purposes and even more so for external expectations.

We don't think it's wise to expect that there will be recycling of that capital until after they open. Because before they open you have not just the ramp risk, but you've got construction risk and other things which make a sale practically much more difficult. The three that we've got are in great cities with tremendous momentum. You look at the capital globally interested in owning fee real estate in London, and that is really comforting to us. You look at the way Miami is growing as a clear capital, not only of part of the region of the United States but really much of Latin America,, and we feel great about that. And New York is, in many respects, a lot like London. It's a global safe haven for real estate, and what we've got there is as an iconic building. So, we feel good about likelihood of recycling all of those. But wouldn't expect -- wouldn't want you to expect that necessarily we will be getting meaningful amounts of that capital back in in 2013.

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

Patrick Scholes, SunTrust Robinson Humphrey: Good morning. Thank you for the good color on group playing out over the next couple of quarters. Curious how you see business travel demand playing out in the next couple of months. Part of the reason I ask is I hear from my hotel contacts that while May looks decent, July looks very strong, June looks a bit soft right now, and we are trying to figure out why this may be. I am wondering if that is what you are seeing as well.

Arne Sorenson: Well, you are trying to read tea leaves, I think. Business transient travel books days, on average before --

Patrick Scholes, SunTrust Robinson Humphrey: True.

Arne Sorenson: -- it occurs. And so we've got -- of course, as compulsive as we are, we have transient and group revenue forecast not just for every month, but potentially for every week in every month. And what I look at shows June to be modestly lighter than May, but you are talking about being within essentially a point of each other, and our accuracy is much less than that, when we are talking about being that far out. I think the best news on transient is the strength that we had in the first quarter, and I think it shows that that's a powerful indication of the breadth and strength of the economic recovery that we've talked about before.

Patrick Scholes, SunTrust Robinson Humphrey: Got it. I appreciate it. Thank you.

Harry Curtis, Nomura Securities: Arne, as you speak to your customers, do you get any sense that since top line growth generally in the country has slowed that they are wanting to just get more of their people on the road to drive the top line? Is that a catalyst behind additional corporate demand?

Arne Sorenson: I think generally this strength in transient is proof of that. In other words, our corporate customers are back on the road, and they are doing business. But I don't think -- maybe this is a little bit negative sounding. I don't think in the last quarter or two, they have said a materially different way, okay, we want to ramp up dramatically the spending that you are doing. I think instead they are continuing with something they have been growing on the last few years. And at the same time, the comments about the short-term group bookings I think are the bit of a cautionary sign that they are going to be mindful about the spending. So, they are not cutting, they are growing, but they are not growing with a reckless abandon.

Harry Curtis, Nomura Securities: And a follow-up for Carl. Carl, after you back out maintenance CapEx, your investment spending is estimated in the range of $500 million to $700 million. If you could give us some detail of what that entails. It always sort of falls into the same buckets. And if you could give us a sense of, more precisely, where's that money going?

Carl Berquist: Well, a chunk of it, $100 million or $200 million, about that, is going on the three EDITIONs that we are building. They are well on their way. It might even be higher than that this year. We spent about $85 million on investing activities during the first quarter. As I look at it, a big chunk of that was the construction costs. We are looking out and doing some loans this year, not really identified yet, but we just see the cap stack and deals we are talking about might have some loans. Then the rest is probably, you also have a big chunk of key money that just because of the volume of new deals that we are signing, you are getting an increase in the amount of key money commitments that we are making.

Harry Curtis, Nomura Securities: Okay, all right. Thanks very much.

Thomas Allen, Morgan Stanley: Good morning. Just on MOXY, I know you said you are going to outline some new brands in the months to come, but as you already talked about -- or you already announced this one, can you just give us some thoughts around it? How big a market opportunity you see for it and what are you going to do differently than other brands that are already in that segment of the market? Thank you.

Arne Sorenson: Good morning. The economy segment in Europe, we think is 2 million rooms, about 40 percent of the total European lodging market. Prior to the announcement of MOXY, we did not have an entrant in that space. We announced it with, we think one of the best partners or sets of partners we could have, both an operating partner who we have done a number of deals with in the past and Inter IKEA, which is essentially the real estate arm, affiliated but not directly tied to the IKEA retail business. They come at it with incredible passion for it and in some respects -- many respects, led us into this space. So we come with a partner we think has a prospect to get us, not just the first 50 of these hotels, but maybe a few multiples of that. And so we'll come out immediately with, I think with good strength.

There are interesting things which are happening on the margins in the economy space in Europe, but much of the economy business in Europe is made up of hotels that find a way to tell you every place you turn that you are in an economy product. In other words, they are not great experiences. What we've got with hotel MOXY and the design that we've come up with, I think we'll be very different from that. It will offer great value, but it will offer it in a way that really doesn't beat you up with a sense that you've got less. We are really excited about it, and we're excited to be -- to have an entrant in what is probably the biggest segment of the European lodging business.

Thomas Allen, Morgan Stanley: Thank you.

Joseph Greff, JP Morgan Chase & Co.: Good morning, everybody. Carl, you mentioned that you'd expect -- within your guidance is embedded a mid-teens growth rate in incentive management fees last year. When you look at the North American side of things, how does that growth rate look?

Carl Berquist: I don't have it by continent right here in front of me, Joe. But I would say, as I mentioned earlier, again, we think North America will overperform as we continue to grow and RevPAR grows, especially from rate. But that will be somewhat offset by a little bit of the RevPAR slowdown in Asia, as well as Europe. I don't have the percentages in front of me. I apologize. But I would say that it all balances out to the 15, but we would expect North America to be the stronger of the continents out there.

Joseph Greff, JP Morgan Chase & Co.: Great. And then of the $500 million to $700 million of non-maintenance CapEx investment spending, how much of that's been identified and committed to at this point?

Carl Berquist: Oh, I would say most of it has at this point. Hasn't been necessarily committed, but has been identified.

Joseph Greff, JP Morgan Chase & Co.: Thank you.

David Loeb, Robert W. Baird & Company: Most of my questions were answered, but I want to follow-up on one Harry asked. Carl, you talked a little bit about key money and loans. Can you just talk a little more broadly about competitive trends and development financing? What you have to do to incent owners to either convert or build your brands, both in the U.S. and overseas?

Carl Berquist: Sure. I think as you look around the world, and we've talked about this in the past, in Asia, the Middle East, we really don't need to invest a lot of money. Oh, periodically we will, but relative to things, as you get into the U.S. and European market, there the competitive environment such that we do make investments in the contracts. On any one contract, it's not a material number, but given the volume that we are doing, is where you see it growing

I think in larger deals, whether it's big hotels or what have you, then we may help with the cap stack or put in a guarantee to be competitive. But in each of those cases, we look at that relative to the return to Marriott and our investment, making sure that if it's in the case of a loan that we can recycle it, get a good return. If it's a -- if it's key money, we obviously look at it relative to the contract we are getting. So, a good example is the opportunistic thing we did with Gaylord. We put in what's equivalent a couple hundred million dollars of key money that's getting amortized, but clearly, those contracts and that brand that we are getting far outweigh -- the value of those far outweigh that investment. That's kind of how we look at it. I don't think the trends have changed. Haven't seen a situation where we have to put more and more money in. I think it's more about what comes onto the market and then the competitive nature of it.

Arne Sorenson: It is still very much the minority deal that gets key money. So, the bulk of our growth in the United States in terms of number of new rooms or number of new hotels would be still the limited-service franchise brands. And by and large, those are not brands that we need to incentivize in any way. We have done some credit enhancing for senior debt for a few new build projects; they tend to be urban, they tend to be managed, and they tend to be bigger limited-service hotels. But the bulk of those, there is no financial participation from Marriott and in truth there's -- we are talking about a handful of full-service hotels in the United States, not more than that. Then certainly, still, I would think 60 percent or 70 percent or 80 percent of the hotels come in with no financial participation from Marriott whatsoever.

David Loeb, Robert W. Baird & Company: Great, and on the change to the calendar year, I just want to say thank you. I know that is expensive and complicated and a lot of work for you guys and bumpy for all of us just in the transition period, but I think in the long run, well worthwhile.

Carl Berquist: Appreciate it. Our finance team did a great job, and they appreciate that comment.

David Loeb, Robert W. Baird & Company: Great, thanks.

Bob LaFleur, Cantor Fitzgerald: Quick question on the balance sheet and a related cash flow question. Debt was up a little bit in the quarter, but I think you had a bond come due. How did you finance the higher debt levels? Was it commercial paper on the line? And then the second semi related question is, could you just walk us through the rough math again and refresh our memories on how you get to the $800 million to $1 billion in available cash to send back to shareholders with the guidance you have given us for the operating numbers? Thanks.

Carl Berquist: Sure. On the debt, we had a maturity in the first quarter, and that was paid off. We had, in effect, prefunded that. If you remember last year, late last year, we did a couple of bond offerings in 2012, one of which was really just taking advantage of low interest rates and prefunding the maturity that was in February. The debt you see on the balance sheet is primarily commercial paper, we are just using commercial paper. The rates are extremely favorable right now, and so we continue to finance the business with that commercial paper.

Bob LaFleur, Cantor Fitzgerald: The credit line is still about zero balance then?

Carl Berquist: Yes. You are talking about our revolver?

Bob LaFleur, Cantor Fitzgerald: Yes.

Carl Berquist: Yes. We haven't drawn on a revolver. We use that just as a back-up for the commercial paper. So, our revolver is a $1.750 billion and as of right now, there is nothing outstanding on it.

When you look at reconciliation, I'm going to go really high level here, but we could probably get you more after we file the Q here today. We are looking at net income in the range of $600 million to $650 million. We talked about the investment spending of $600 million to $800 million. We'll probably recycle about $100 million during the year of various things, whether they be note collections or sales of some assets we have. Our depreciation runs around $150 million to $160 million, we'll generate about $100 million in cash tax savings. And then we'll get about another $100 million from working capital benefits, from changes in Marriott rewards. And then because of the growth in EBITDA, our borrowing capacity will go up and that will generate anywhere from $250 million to $350 million. And then a couple of other things, we'll pay some dividends, issue some stock on the employee compensation plan, and if my math is right and you go through all those things, you'll get somewhere around $600 million to $800 million.

Bob LaFleur, Cantor Fitzgerald: Thanks.

Jeffrey Donnelly, Wells Fargo Securities: Good morning, guys. Arne, we all hear about supply growth at historically low levels here in the U.S., as least on a national level, but it feels like we are seeing signs of new construction or conversions to hotels in most cities. Do you think that purely urban supply growth is returning to its historical pace and it is really the suburban markets that are suffering in regards to new construction?

Arne Sorenson: Your question suggests we are seeing higher supply growth in the cities and less in the suburbs?

Jeffrey Donnelly, Wells Fargo Securities: Yes, or have the cities returned to a more normalized pace to what they're typically used to doing?

Arne Sorenson: No I don't think so. I was -- I went back and fiddled with our pipeline, you have got Smith Travel and Lodging Econometrics and few others that try and look at industry data, which we obviously try and take a look at. But looking at our own data is what we understand best.

So, we have 22,000 more rooms, a little bit more than that, in our pipeline now than we did at the end of the first quarter of 2012. And I quickly was looking for, what are the major drivers of that? And basically, I get about -- about two-thirds of it is growth outside of the United States. Of the growth in the United States, 80 percent of it is limited-service product, and that would be mostly suburban and/or secondary/tertiary cities, not urban core.

The full-service rooms that are sort of the add, if you will, to our pipeline in the U.S., as a grand total of about 1,500 rooms, and two-thirds of that is one urban convention center hotel. So there is essentially, other than a few of these convention center hotels, which depend on cities wanting them to happen and providing some financial support, we still see essentially zero full-service development underway. And on the limited-service side, I think it is still very much a suburban phenomenon. I do think it's very much a low supply. And that is our pipeline, of course, that is not openings. So, that, in a sense, gives you a good picture of what we expect to open in the next 12 to 18 months, something like that.

Jeffrey Donnelly, Wells Fargo Securities: That is great color. I guess as a follow-up, because you mentioned the convention center hotels, it feels like municipalities are getting a little more aggressive with incentives to create jobs and broaden their own tax base. Have you guys seen more municipalities reaching out to you guys? And now that you have had more time with the Gaylord brand, do you think there is an opportunity to add more units around the country?

Arne Sorenson: Our teams are probably in discussions about half a dozen, maybe, convention center hotels that have some level of city or regional support. I almost certainly would guess that that is more than would have been the case in 2009, when we were in the depths of the recession, but probably not quantitatively very different from a sort of normal environment.

There is some regularity in cities looking to either have a convention center for the first time or, more likely, say, you know what? We have had this convention center for 15 or 20 years, and we are no longer competitive. And therefore, we've got to figure out how to put us back on the rotation for the big association and group meetings. And so, we are seeing some of that. Nashville will open its brand new convention center here momentarily. It is a big box, a beautiful building and they will end up with a few hotels that open downtown Nashville that relate to that convention center. But that would be one example, and again, I don't think it is materially different than what we'd see in normal economic times.

Jeffrey Donnelly, Wells Fargo Securities: Thanks.

Ian Rennardson, Jefferies & Co.: Going back to the share buyback, do you have a share price at which you would not be buying shares back, or are you ambivalent to your share price in this sense?

Carl Berquist: Obviously, we take into consideration a lot of variables, and we do look at what we believe to be the intrinsic value of the Company as we look at what we are buying at what price we are buying. So, a lot goes into that, but one of the big things is, is returning value to shareholders is one.

Ian Rennardson, Jefferies & Co.: Okay. Thank you.

Bill Crow, Raymond James & Associates: Arne, instead of focusing on RevPAR, let's look at expenses. And looking out to 2014 where you have Obamacare, you have got higher real estate taxes, labor costs on the rise, theoretically, at least a full year of higher property taxes, property insurance. Is that -- how big a threat, as you think about that for next year, and many of those costs are borne by the owners, but that does impact your ability to get the incentive management fees? Just kind of give us your thought process. And I know there are a lot of questions out there on these subjects, but what is your thought from an expense perspective next year?

Arne Sorenson: Well, I love that you asked, Bill. We delivered 160, 170 basis points in margins in the U.S. in Q1, 170. But one cautionary comment there, that is a hard number to translate from our prior three of 13 period first quarter in 2012 to a three month of 12 month quarter in 2013. But we don't think it's far off of what the state to state margin improvement is. And that is -- kudos to our operating team that are focused on essentially all elements of the P&L and making sure that we are doing as well as we can to drive through efficiencies in above property and on property expenses.

When you look into 2014, certainly Obamacare is the biggest new potential wrinkle in the cost profile. There is still a lot of work to be done before we'll have real clarity about what we think the costs are going to be. Our estimates today for the managed portfolio in the United States is about $60 million to $100 million. And that would be, oh, I don't know, maybe about half of a point, so a 50 basis point impacted on margins.

These are really rough numbers though, Bill, so be careful about that. And obviously, these are system costs that will ultimately be borne by the hotel. We will pick up a share of that through incentive fees for the managed portfolio. We don't know what the number would be for the franchised portfolio, but in terms of number of rooms, the franchised portfolio is about the same as the managed portfolio in the United States. So, the numbers could be around the same order of magnitude.

And we're just going to do everything we can to watch that and manage it. I suspect that it will not all hit in 2014. That one way or another, we'll see that some of this gets gradually implemented, and it will probably be more like a two year rolling impact than a one year rolling impact. We'll have to see what happens with underlying medical cost growth during the same period of time because obviously, we have been seeing certainly above inflation growth and medical costs for many, many years. And if you could see a few points of that curve bend, then the net impact would be less significant than that $60 million to $100 million bucks.

Bill Crow, Raymond James & Associates: I was wondering, does your gut tell you the pace of operating expense increase will accelerate in 2014? So, we'll have to do a little better top line growth or rely more heavily on rate growth to offset that? Is that a fair way of thinking about it?

Arne Sorenson: Maybe modestly. With each passing year of the recovery, you end up with a greater risk that you're going to see some pressure on not just medical costs, but on wages. And personally, I think we are more likely to see inflation go up than vice-versa, and that will have some modest impact. On the other hand, with each passing year, more of the RevPAR growth comes from rate and obviously, RevPAR coming through rate is better for margins than RevPAR coming through occupancy. I think it is way too early to be giving guidance for 2014 and 2015, but I think our expectations would be that we will, net-net see margin growth above 100 basis points in each of those years. Hopefully well above.

Bill Crow, Raymond James & Associates: One final question. How many hotels that were paying incentive management fees last year are not paying this year?

Arne Sorenson: You are just trying to stump us.

Carl Berquist: We'll have to check on that.

Laura Paugh: We'll check it and I'll chat with you off line.

Bill Crow, Raymond James & Associates: I assume it will be mostly European-based, but it's just…

Arne Sorenson: I don't think it is probably very many.

Laura Paugh: I don’t think it is very many.

Arne Sorenson: Certainly, if you focus on the U.S., I suspect it would be a pretty unusual story.

Laura Paugh: It would be an unusual situation.

Carl Berquist: Maybe went into renovations or something. It would be the odd man out.

Bill Crow, Raymond James & Associates: Okay.

Ian Weissman, ISI Group: Yes, good morning. There is a lot of focus when people talk about group business to focus on the gateway cities, coastal cities. Just given your out size presence in between the coasts and maybe even just secondary markets, can you talk about the trends that you are seeing and the improvement potentially in those markets relative to gateway cities?

Arne Sorenson: Interesting. Well, I'll give you a couple of things. I'm not sure if it will answer your question exactly or not. But if you look at Smith Travel for Q1, top 25 markets in the U.S. posted RevPAR growth about 3 points higher than all other markets in the United States. That's a reasonably good gap between -- and obviously, top 25 are not all coastal markets. Chicago would certainly be in there. I suspect Houston and Dallas are both in there, Denver's probably in there. But it probably -- I'd have to go check that list. It probably would not include an Indianapolis, as an example, or some other meaningful Midwestern cities.

But so you get that gap and you can say, well, what's driving that? And I think you have got a few things. I think one is economic growth in the west, on the west coast is probably strongest. RevPAR for us in the west is probably, as a region as a whole, has been very steady and strong. and so the economic growth is probably a little bit stronger.

B, I suspect that those coastal markets are disproportionately dependent on transient business, not group business, and transient is stronger. You can hear in our 8 percent transient growth in Q1 compared to about a 1 percent group growth in Q1, that is a pretty big gap between those two. And at the same time, I think you look at markets like Nashville and Indianapolis, too, that I have mentioned, those cities are doing well. And I think they are investing. Indianapolis has done a really fabulous job investing in the infrastructure downtown, they have created a great place for meetings, and I think the volume they are getting because of that is quite strong. Nashville, the demand is good. Our team in Nashville is really excited about the future. And so I think there is every reason to believe that where the infrastructure is developed right, these cities can compete and can compete well. Does that answer your question, Ian?

Ian Weissman, ISI Group: Yes, it does I appreciate it.

Arne Sorenson: All right thank you all very much. We appreciate all of your time and your interest in Marriott and look forward to welcoming you into our hotels soon.

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