Marriott International, Inc.
First Quarter 2014 Earnings Conference Call Transcript[1]
April 30, 2014

Operator: Welcome to the Marriott International first quarter 2014 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 2014 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, April 30, 2014, 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.

In the past few weeks, I attended the ground breaking of our new 1,000-room group hotel in Houston, toured development sites in Europe and Japan, and met with travel industry leaders at the World Travel and Tourism Council Summit in Sanya, China. At every stop, I sensed tremendous optimism in this industry. Not only is economic growth driving RevPAR, but larger trends, from globalization, to the rise of the middle class in emerging markets… are driving opportunity for the travel industry. We were pleased to hear last week that the Chinese government leadership set a target of 500 million annual outbound Chinese trips, up from 98 million in 2013 -- confirmation that the China growth story is alive and well both at home and abroad.

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

My first stop was the ground breaking of the new Marriott Marquis in Houston, Texas. Expected to open in 2016, this big-box hotel will have nearly 100,000 square feet of meeting space connected by a walkway to the Convention Center. By the way, we define "big-box hotels" as properties with more than 1,000 rooms. Smith Travel data shows that today we lead in this space with a 13 percent share of these highly profitable hotels in the United States. And our lead continues to grow. As of quarter-end, we had nearly 30 percent of the industry's new big-box hotel pipeline, more than any competitor.

One of those new properties is our official 4,000th hotel, the Marriott Marquis in Washington, D.C., a 1,175-room convention hotel with 105,000 square feet of meeting space and connected to the Washington Convention Center with over 700,000 square feet of exhibit space. Scheduled to open next month, we hope you stay with us the next time you are in Washington, D.C.

Despite these exciting new projects, overall supply growth in the North American market remains low, constrained by high construction costs, tight financing and attractive existing hotel investment opportunities.

But things are slowly beginning to change. The continuing recovery in the CMBS market has freed up some capital and banks are getting interested in the higher yields made possible by lending for limited-service hotels. High quality brand sponsorship and low leverage are still the norm, but lending is steadily becoming more available. We expect it will be a few more years before we see meaningful supply growth. In fact, given today's strong demand environment, we believe we are only midway through this cycle.

We continue to benefit from lender and owner preference for our brands. At quarter-end, our worldwide pipeline stood at over 200,000 rooms, with nearly 40 percent already under construction. In the U.S., across all our brands, we have a 10 percent share of existing rooms, but nearly a 25 percent share of industry rooms under construction. Our overall development pipeline still favors smaller markets. Over 65 percent of our North American pipeline hotels are outside the top 25 MSAs.

In North America, our newest brand is AC Hotels. It's a metro-urban lifestyle product transplanted to the New World from our Spanish joint venture. Franchisees love the concept. We already have 28 AC Hotels approved in the U.S. and another 40 hotels in discussion.

In Europe, Moxy is generating a lot of buzz. We already have a dozen Moxy hotels in our pipeline with the first hotel expected to open later this year. We see considerable franchisee interest in this brand targeted at a high-style, youthful market and expect to have more than 100 Moxys in 10 years.

In Mexico and Brazil, development is picking up. We are building three hotels in Brazil to kick-start the Residence Inn, Courtyard and Fairfield brands. Total investment should be $150 to $200 million spread over the next 3 to 4 years with recycling sometime after opening. In Mexico, a very strong capital market and new lodging REITs are driving limited-service development. Including our full-service hotels, we already have 23 hotels open in Mexico and 18 new properties in the pipeline.

In the Asia Pacific region, we signed more new-build upper-upscale and luxury rooms in 2013 than any competitor and 2014 looks just as strong. I toured our new Marriott in Osaka and the new Ritz-Carlton in Kyoto earlier this week. These are exciting hotels in highly profitable markets. In India, while full-service development is tough, Courtyard and Fairfield development is taking off with 4,000 rooms in the pipeline. Across China, we have roughly 25,000 rooms open and more than 35,000 rooms in our development pipeline under eight different brands.

In the Middle East and Africa region, we completed the acquisition of the Protea Hospitality Group on April 1st, adding over 10,000 rooms and launching us to the leading position in Africa. We are excited about the growth opportunities that come with this management team and their brands.

Some believe that our size and global distribution are impediments to our growth. The evidence reveals just the opposite. Twenty years ago, we had five hotel brand platforms positioned to grow; today we have 17. In 1993, we had about 100 franchisees operating our brands worldwide; today we have more than 800. In 1993, we operated in 21 countries; today we are in 78. In 1993, our international presence was typically one or two hotels in each country. Today, our market share of branded upper upscale and luxury hotels around the world is impressive… 11 percent of the market in Dubai, 12 percent in Paris, 14 percent in Mumbai, 15 percent in London, 17 percent in Rome and 23 percent in Shanghai. All of this has not only enabled us to grow our system; it is enabling us to accelerate growth of our system. In 1993, our pipeline was roughly 30,000 rooms; today it's over 200,000 rooms. Last year, we achieved a record 67,000 rooms signed worldwide, contracts that we value at roughly $1 billion in NPV. And we expect to achieve another record signing year in 2014.

Over the years, the lodging industry has evolved… from independent hotels to brands to multi-brand organizations. Marriott has been at the forefront of this segmentation evolution, linking the brands with Marriott Rewards and Marriott.com. Today, we have over 45 million Marriott Rewards members, accounting for over half of our worldwide occupancy.

In the first quarter, Marriott.com accounted for over 26 percent of our roomnight bookings worldwide, or one-third of our transient business… and 40 percent of our marriott.com traffic came from mobile devices. We've nearly completed deployment of mobile check-in and check-out across the entire Marriott Hotels brand worldwide, well ahead of the industry. We expect to offer this service at more than 1,000 hotels by year-end 2014.

We recognize that industry leadership isn't a given. We need to invest and change to be prepared for the future. We have nearly completed a 6-year, 800+ hotel renovation program for Courtyard, which has meaningfully increased that brand's RevPAR index and improved profitability. At the Marriott brand, we have introduced new service initiatives for our meetings business and introduced the "Travel Brilliantly" marketing campaign. We are renovating guestrooms, offering better guestroom baths, and completing the roll out of the Marriott great room.

There is a lot going on at Marriott. We're gratified by our stock price performance and appreciate the confidence that our shareholders have in us. Now I'd like to turn things over to Carl Berquist to talk more about our outstanding first quarter results. Carl?

Carl Berquist: Thanks, Arne.

For the first quarter 2014, lodging demand was very strong and worldwide systemwide RevPAR exceeded the top end of our guidance. Diluted earnings per share totaled $0.57, ahead of our guidance of $0.47 to $0.52. We beat the midpoint of our first quarter EPS guidance by about 8 cents. Roughly 1 cent came from better profits on the owned/leased line, 2 cents from the timing of G&A spend, 5 cents from a favorable discrete tax item and 2 cents in favorable interest costs and joint venture results. This was offset by a roughly 2-cent impairment on our EDITION hotels recorded on the depreciation line. With better than expected RevPAR growth in the first quarter, very strong transient trends, and improved group bookings, we have increased our RevPAR growth outlook modestly for 2014.

In 2013, our first quarter included a 3-day stub period which contributed about $5 million pretax to operating income, and set up a modestly tough comparison for the first quarter of 2014. Excluding the impact of the calendar change and the $10 million impairment, operating income rose nearly 20 percent in this year's first quarter.

Courtyard benefited from strong transient demand. Company-operated North American Courtyard RevPAR rose almost 9 percent in the quarter largely due to the impact of our Courtyard lobby and room renovations in the prior year.

The Easter comparison helped our group business. Marriott brand group RevPAR at comparable managed properties in North America increased 8 percent with over 3 percent higher room rates. Group attendance exceeded expectations and cancellations were below trend. Group spending on catering rose an impressive 11 percent, and food and beverage outlet sales rose 5 percent.

Our group business meaningfully outperformed the competition in the first quarter. In fact, our Marriott brand group RevPAR index in North America increased nearly 500 basis points in the quarter.

Looking across the markets, our company-operated hotels in San Francisco, San Diego, LA, Dallas and Denver all reported double-digit RevPAR growth in the first quarter. Florida markets had strong leisure demand, but tough comparisons to a variety of events last year constrained growth in New Orleans, New York and Washington, D.C. While we haven't seen an upturn in U.S. government business, government demand seems to be stabilizing and comparisons should get easier as the year progresses. In any event, given strong transient and group demand, we are intentionally reducing government occupancy in many markets.

Outside North America, systemwide comparable RevPAR rose 6 percent on a constant currency basis. Systemwide constant dollar RevPAR in the Caribbean and Latin America region increased 10 percent, with strong performance in Mexico, which was up 13 percent. Our resorts in the Caribbean increased RevPAR 10 percent as strong group demand, combined with a cold winter, in the U.S. filled warm-weather destinations.

In the Asia Pacific region, constant dollar systemwide RevPAR rose more than 6 percent, exceeding our expectations with particular strength in Japan, Indonesia, Australia and Greater China. Greater China alone saw RevPAR up nearly 7 percent driven by strong results in Shanghai and Hong Kong.

The economy in Europe is improving and RevPAR rose almost 4 percent. RevPAR in the U.K. was up more than 5 percent; Germany rose nearly 4 percent; but with a weak economy, France declined 4 percent. First quarter RevPAR at our 13 comparable hotels in Russia declined 1 percent.

RevPAR rose modestly in the Middle East and Africa reflecting strong results in the UAE, but difficult business conditions in Egypt.

Worldwide systemwide RevPAR rose 6.2 percent and our worldwide RevPAR index increased nearly 100 basis points.

Turning to margins… house profit margins at company-operated hotels in North America increased 160 basis points. Utility costs were unusually high with the cold winter, but improving room rates and food and beverage revenues contributed to the strong performance. Worldwide house profit margins increased 130 basis points.

Total fee revenue increased 5 percent in the quarter. The longer fiscal quarter in 2013 contributed about $5 million to last year's fee revenue. Base fees reflected stronger RevPAR but were offset by the impact of terminated contracts and a $2 million negative impact of foreign exchange. First quarter incentive fees were constrained by tough comparisons in New York, New Orleans and Washington, D.C. We continue to expect incentive fees will increase at a low double-digit rate for the 2014 full year.

Worldwide, 36 percent of managed hotels paid incentive fees in the quarter compared to 33 percent in the year-ago quarter.

Owned, leased, and other revenue, net of expenses, totaled $49 million in the quarter, 9 percent higher than the prior year, driven by improved results at owned and leased hotels partially offset by $5 million of lower residential branding fees and termination fees.

Depreciation and amortization totaled $36 million in the quarter compared to $25 million in the prior year. The increase was largely due to the first quarter impairment, as I mentioned earlier.

General and administrative expenses totaled $148 million in the quarter, beating our guidance largely due to timing.

For Marriott International, our adjusted operating profit margin in the first quarter, excluding the impact of reimbursed costs, increased from 38 percent to 41 percent, or 42 percent excluding the impairment. We repurchased 7 million shares during the quarter for approximately $355 million. Our average fully diluted share count in the quarter was 5 percent lower than in the prior year.

Looking ahead, we expect second quarter RevPAR will increase 4 to 6 percent worldwide. Our second quarter group booking pace in North America for the Marriott brand is modestly higher year-over-year despite the timing of Easter and we see strength in corporate and leisure transient business. Across our North American brands, we estimate the RevPAR impact of the Easter shift was about 1 point favorable in the first quarter and will be about 1 point unfavorable in the second quarter.

Outside North America, we anticipate RevPAR will increase at a double-digit rate in the second quarter in the Caribbean and Latin America as we benefit from strong demand in Mexico, the Caribbean and Brazil. Asia Pacific RevPAR should grow at a mid single-digit rate, reflecting strong results in most markets. We expect low single-digit growth in RevPAR in both Europe and the Middle East and Africa regions, held back by disruption in Russia, continued weak demand in France, and ongoing weakness in Egypt.

For the full year, we expect RevPAR to increase 4 ½ to 6 ½ percent worldwide, driving fee revenue up 8 to 11 percent. Group business is building. Three months ago, our 2014 North American group booking pace for the Marriott brand was up just over 4 percent; today, it's over 5 percent. Corporate group pace is even stronger.

For owned, leased and other revenue, net of direct expenses, we expect higher results due to our newly purchased hotel in Charlotte, the leased Protea hotels, and higher branding fees, all overcoming the roughly $25 million of lower termination fees.

Overall, our earnings guidance reflects approximately $15 million of EBITDA from Protea operations for the three quarters of 2014. In addition, guidance reflects roughly $6 million of transaction costs and $7 million of depreciation and amortization for Protea in 2014.

We expect our general and administrative expenses will be flattish in 2014 and we remain intensely focused on controlling our G&A spend.

All in all, we expect fully diluted EPS will total $2.39 to $2.53 in 2014, a 20 to 27 percent increase from 2013.

For full-year 2014, we expect adjusted EBITDA will total roughly $1.44 to $1.5 billion, a 9 to 13 percent increase over 2013. Investment spending could total $800 to $1 billion, including about $150 million in maintenance spending and $193 million for the Protea acquisition. We will remain disciplined in our approach to capital investments and share repurchase. We expect to recycle $600 to $700 million from asset sales and loan repayments during 2014 including the sale of the London EDITION and the Barcelona Renaissance, transactions which are already complete. We expect to return $1.25 to $1.5 billion to shareholders through share repurchases and dividends this year. Year-to-date, we've already repurchased 9 million shares for $467 million.

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 expect to stay as long as you want to answer your questions.

Question and Answer Session:

Robin Farley - UBS Investment Bank: Just looking at the results, so RevPAR came in at the top end of guidance, but fee revenue, maybe not as high relative to expectations -- I mean it was within your guidance. So I guess I'm just wondering, does that have to do with RevPAR in properties that are not in your same-store comp set? Or just trying to think about why that outperformance in RevPAR wouldn't have been in the fee revenue as well. And then just for my follow-up question, I'm just wondering if you can quantify all the sort of risks, the EDITION cost still going up for the 2 properties that aren't complete, and with your sales price locked in, and I guess, that would be all Marriott having to pay for that additional spend. I don't know if you can quantify that.

Arne Sorenson: Good questions, Robin. on EDITION, first, we have looked through to the completion of the project and made the best estimates we can. So as we sit here this morning, we are optimistic that we've captured everything. Although as we've mentioned before, construction risk is retained with us until these projects are completed. And until they're done, the risk will not entirely disappear.

With respect to RevPAR and fees and how they relate to the guidance ranges, we've obviously looked at that. I think probably the best single thing to say is that around incentive fees, maybe particularly, there's always a little bit of lumpiness, so that as we look at Q1, we had obviously a greater weakness in markets like D.C. and New York, which are good fee-earning markets to us. The stories were different in those 2 markets. In D.C., we have the tough comparison with the inaugural in New York. I think we had a Super Bowl that was a little less buoyant than we had anticipated. And obviously, we've got a fair amount of supply growth in New York, which is the one big MSA, which has seen supply growth. Whereby, comparison last year, we had the Super Bowl in New Orleans, which drove significant performance there.

And then you get markets like Thailand. Thailand was down top line, probably almost 20 percent in RevPAR in Q1. And I think on a fee basis, it was probably down more like 40 percent. That's a comparison to budget, not comparison to last year. And you roll all those things up and you get a few million bucks here or there which has some impact to us. All in all, though, we think the fees came in more or less within the range that we would have expected.

David Loeb - Robert W. Baird & Co.: I wonder if you could just talk kind of big picture about what you're thinking in terms of the potential for acquisitions, what opportunities do you see to, for example, jump start the growth of AC or EDITION or Protea? And then just kind of one, my follow-up slot, any implications from Winthrop's liquidation relative to your EDITION Times Square deal? Will that change the structure of the put option for that asset, for example?

Arne Sorenson: I'm pretty sure on the latter, the answer is no. That deal is fully baked and documented. So while I'm not up to speed with the details of what Winthrop is up to, I don't think there's any reason for that to have any impact to us.

With respect to the sort of M&A market, I think actually where we sit today, we are really pleased with the new platforms and the way they're set up for growth. So you talked about EDITION and AC and Protea specifically. EDITION, obviously, London, we opened last September, it's doing great. We're really pleased with the customer response to that hotel, both on the room side and the food and beverage side. We'll be opening in Miami and the Clock Tower building in New York within the next 12 months, I think Miami later this year and New York early next year. And I think behind that, we've got another 8 to 10 EDITION hotels. Probably half of those are in Asia. They're great hotels, and we're feeling like the investments we've made in EDITION are paying off and are hopeful that we won't have to make any further significant investments, although we'll continue obviously to kick tires whenever opportunities are presented to us.

We gave you the statistics for AC U.S. in the prepared remarks. That brand is absolutely sizzling in the United States, with nearly 30 that are signed, but another 40-plus which are under discussion. And I think we'll see that our franchisees come in to invest in that brand in a way that is really head-turning.

And then Protea, as we've talked about, is a great investment for us, we think for 2 reasons really. The first is as a multiple of the EBITDA we're acquiring, we think it's a reasonable transaction at about 10x. And we will be pleased to add that, the accretion impact of that through the P&L. But maybe almost even more importantly, we think that leadership team and the group of highly engaged associates that they've got in South Africa and Nigeria and other places will bring us tremendous expertise that will allow us to open the hotels that were already in our pipeline and accelerate the growth that we've got. And so we sit here thinking that we're in a good shape. Now that doesn't mean we won't continue to look at opportunities that are presented. We are really quite pleased with the 3 deals we've done recently on the M&A side: Protea, Gaylord and AC. They're all paying dividends. Each of course has its own story in some respects. We're probably a little early in Spain, but I think in some respects, the AC acquisition is going to be really proven out with the growth in the U.S., which we haven't anticipated so much when we did the deal. So we'll keep looking, but we have nothing to forecast at the moment.

Smedes Rose - Evercore Partners Inc.: I wanted to ask you on the M&A outlook as well, but with Protea comes, I think, a number of leased assets. And is that something you would look to sell those lease interests over time? And I was also curious, you mentioned development in Brazil. Is that a joint venture? Are you doing that on balance sheet? And are those kind of initiatives something you would look at in other markets as well?

Arne Sorenson: Yes. The lease -- why don't you talk about Brazil, Carl -- but the leases in the Protea deal, that's the way the deal came to us. All things being equal, we just assume have management contracts, not leases, for obvious reasons. Part of that is that leases are extremely difficult to recycle. So the expectation that we would sell the lease position, I think, is not one that you should have. We are pleased that the leases in the Protea deal are by and large revenue share leases, variable leases and, as a consequence, don't give us quite the same risk that a typical hotel lease in Germany, for example, might, which is a much more sort of hell or high water lease. We think they'll be accretive to us. But the way the math works, it will impact our capacity a little bit, so we'll be watching that. Carl, do you want to talk about...

Carl Berquist: Yes, on Brazil, we'll be doing those 3 hotels on our balance sheet. We're working with some major developers in Brazil. The idea, and it's already paid off, is to feed the select-service in São Paulo and Rio and develop that. And we've already signed several new management agreements as we started to roll out those brands down there in South America, and, in particular, in Brazil.

William Crow - Raymond James & Associates: I want to follow up on that question on Brazil because -- does that say anything about the appetite for owner developers down in Brazil to -- because your brands are established. It's a little different than going out and do an EDITION in order to get that brand going so I'm a little surprised that you're doing that on balance sheet. And I'm just wondering whether that's hesitancy or difficulty of local developers. My follow-up question is, Arne, I want you to just talk about how you're thinking internally about your share repurchases or what the valuation metrics are you might use to think about when the best time is to be buying stock.

Arne Sorenson: Yes. So Brazil, just to give you a little bit more color on that, we've got a 2 pack Courtyard residence under development in Rio, which we expect will open by the time of the World Cup next year. And we wanted to see that...

Carl Berquist: The Olympics.

Arne Sorenson: …The Olympics, excuse me. We wanted to seize that opportunity before it disappeared. And it was teed up and ready to go, and so we grabbed it. Then we've got a big Fairfield project in São Paulo that also is under way. Brazil is a bit of an interesting riddle, I think, for us and for much of the industry. None of us have very good distribution in Brazil, at least in terms of number of hotels. I think we're open -- I may get this wrong and Laura and Betsy will maybe find a way to look at it and correct me before we finish the call, but I would think we're about 8 to 10 hotels open in Brazil, and we've probably got a pipeline of another 10 or so behind that. And not tremendous strength with the limited-service brands even though we think it's a market that has huge potential for our limited-service brands. And so we have been working in the last 1.5 years maybe or so to get these projects off the ground. Obviously, we'd love to have partners come in and take the equity stake. It's conceivable that we could do that before they open, but the right expectations for you to have is that it will not happen until after opening. And we think, again, because our distribution in Brazil is relatively small, we will -- it is akin to investing in new growth platforms in that market, which is very much Brazilian focused, obviously

In terms of share repurchase, Carl can talk about his scorecard for share repurchase in a way that's more precise. But as we sit here today, we think we're in the middle of this cycle, not towards the end. We don't have anything to tell you about 2015, 2016 and 2017 guidance in this call, but the kinds of things which are driving our earnings and EBITDA growth today, strong RevPAR growth, strong unit growth, great G&A leverage and great capital leverage, if you will, from share repurchase, we think are likely to continue for the foreseeable number of years. And when you look at valuations in light of that, we are convinced that our stock is still a very good, very reasonable and very strong buy. Carl, do you want to add anything?

Carl Berquist: Yes, the only thing I would add is, is that it starts with a capital allocation plan and strategy that you have as part of the company. And when you do that, you take into consideration the macro environment we're operating in as well as where we're at in the cycle. And you take those things into consideration, as Arne just talked about, and you look at where we think we are in the cycle, as Arne mentioned in his prepared remarks, about midway through the cycle. When you look at those things and you look at our capital allocation strategy, which we've discussed with all of you, particularly the fact that, first and foremost, we're going to invest in the business to make sure that we have the dry powder to do the Gaylord deals, the Protea deals, the AC deals, and expand the business, but at the same time, that strategy encompasses returning money to shareholders in the form of share repurchase as well as dividends. So all those things go into consideration as we look out -- as this cycle runs and how that plays into our strategy.

Laura Paugh: Oh, and Bill, you can -- to let you know, we have 5 hotels open in Brazil and 10 in the pipeline.

William Crow - Raymond James & Associates: Thanks.

Arne Sorenson: Oh, and one last thing on Brazil. The -- well, we maybe talked about this a little bit more specifically today than in prior quarters. These numbers have been in our capital investing guidance for some time. They're not new, and they're not incremental to the numbers we've given you before.

Nikhil Bhalla - FBR Capital Markets & Co.: Just a question on the government-related comps getting easier for you during the year. As I recall, last year, I think once you started out strong with groups. And as the sequestration and all that impact unfolded, I think the second and third quarters really bore the brunt of government cutbacks, especially on the group side. Does that mean that you may actually see some easier comparisons on the group side going forward like second, third quarter?

Arne Sorenson: I think -- yes, I think you're exactly right. On government group business, the comparisons get dramatically easier in the second half of the year compared to the first. So my guess is we'll see government business stayed and paid in the second half of 2014 compared to second half of 2013 up meaningfully. Maybe 10 percent or some number like that wouldn't be surprising. At the same time, we are already yielding out government transient business. And so when we look at the first quarter chart for the Marriott brand as an example, government rate is probably up 1 percent or 2 percent, but total government volume, I think, was down in the 15 percent range because we're seeing a number of our hotels yield government business out in favor of higher-rated business. But still, they -- yes, there we may still have government business in its entirety down this year, but I think more of that is by choice as opposed to by the forced impact of sequestration and the like.

Nikhil Bhalla - FBR Capital Markets & Co.: Got it. And just a follow-up question on your fourth quarter this year. I think in the last conference call, you had mentioned something about the fourth quarter, was tracking maybe not so good at that point in time, a little bit more moderate than your other quarters. Have you seen that improvement kind of build up into the -- into 4Q as of this time? Any major changes?

Arne Sorenson: We have seen improvement in group bookings really across the spectrum, both bookings for 2014 and bookings for future years. But as with a quarter ago, so we sit here this morning with group bookings up about 5 percent. And compared to the same time last year for 2013, the fourth quarter is closer to flat, and the first 3 quarters are, as a consequence, up more in the, I don't know, 6 percent to 7 percent to 8 percent range, something like that. But that is -- that's where we just assume it'd be. It gives us that much more opportunity to add business in the year for the year in Q4.

Harry Curtis - Nomura Securities Co.: Just a couple of quick questions. As much stock as the insiders own, is there any move to or interest in lifting the dividend?

Arne Sorenson: Well, we have, I think, every year in the last few years at least moved our dividend roughly with our earnings. We have a board meeting coming up in May, and we'll announce whatever we decide in that board meeting. But I think the last few years, our announcements have followed that May meeting, spring meeting. And that dividend payout ratio, Carl, is in the 30 percent to 40 percent?

Carl Berquist: 30 percent to 35 percent.

Arne Sorenson: 30 percent of earnings. We have not indicated -- and I wouldn't anticipate that we would indicate a meaningful shift towards a dividend repurchase. We obviously compete and operate in a business which has got some cyclicality to it. We have very deliberately talked to our shareholder community about returning capital one way versus the other, and I think what we have heard back loud and clear from folks is that they appreciate our returning capital to shareholders very consistently. But there is not a consistent view that it ought to be more richly in dividends as opposed to share repurchases. So I suspect you'll see us continue more or less the way we've been going in the last few years. Last -- maybe I should say the last few decades, I don't know.

Harry Curtis - Nomura Securities Co.: Okay. And then the follow-up is related to the incremental group demand that you guys are seeing. And I'm interested in -- maybe if you could share with us from the point of view of the companies booking more. What do you think might be giving them greater confidence to lift their group demand? What are you hearing?

Arne Sorenson: I think we hear that -- I think there's broad optimism. It's obviously a big world out there. But focusing on the United States, we hear corporate customers with greater confidence about the economic recovery in the United States than has been the case the last few years. I think a piece of that is the atmosphere. To some extent, that's politics. I mean, in the last few years, we've always had a bit of an overhang on fiscal issues, whether that be debt ceiling limits or budget negotiations. And with the deal that was put in place early this year, that, by and large, is off the table. And so that threat doesn't exist. But I think also a significant piece of that is more fundamental and is a view that the economic recovery is broad and steady and ought to continue.

And so we see corporate customers that are not throwing caution to the wind by any stretch but are prepared to invest in their business and do the things that can be accomplished through meeting, whether those meeting are focused on internal strategy, partners' meeting from the big services firms, or customer relationships, sales conferences and the like.

We also know that our group share across the Marriott brand and essentially all of our brands in the United States, but you look at the Marriott brand, I think our group share is up 5 to 6 points this year and was up meaningfully last year. And so, a couple of points maybe in the same quarter last year. We know that we're taking significant group share, and we are hopeful that's driven both by our service of those group customers in our hotels and our sales force that really services them on the front end.

Thomas Allen - Morgan Stanley: There's been a fair amount of focus on group this morning, and you've mentioned a couple of times the group pace is improving, but it's obviously off of a lower base. Can you just give us some more color on your expectation for group versus trends in performance? And do you think there'll be a point where group RevPAR will start to outperform transient for a sustained period of time?

Arne Sorenson: A year ago, there was a significant discussion about whether there was a secular shift in -- away from group towards transient, and we kind of resisted that notion then while conceding at that point in time that if you look at 20-year trends, you'll see a shift towards more transient and more leisure, and we would expect those kinds of trends to continue. But as we sit here today, we would say the evidence shows reasonably clearly that group is coming back about the way it should, and you'd expect it to, based on prior economic recoveries. Group always takes a bit longer to come back in transient business, and we're not surprised that it's a bit more modest this time given that RevPAR itself and economic growth itself are a bit more modest coming out of this last recession than they were out of prior recessions. And so we're encouraged by what we see. We also think it's not surprising and not meaningfully different than what we've seen out of prior recessions.

Having said that, the way transient and group grow in an economic recovery, group doesn't really, on a sustained basis, outperform transient until transient begins to weaken. And so we are actually hopeful that we'll see transient business continue to grow faster than group as a stayed and paid matter for the foreseeable future.

Joseph Greff - JP Morgan Chase & Co.: You all talked about the New York City market in 1Q being a relative underperforming market compared to the overall North America result. Is that all supply related? Or is there anything else? And is -- when you look back at the 1Q, was there a big difference between New York City full-service and select-service hotels? And do you anticipate New York City getting any better?

Arne Sorenson: I think New York RevPAR for us was between 1 percent and 2 percent in Q1. You have 2 things going on in the quarter, maybe 3 actually. One is the comparisons to Hurricane Sandy. So when you look at the New York Metro area as a whole, which is in our New York numbers, last year there was a lot of extended-stay business for folks that were dealing with Sandy. There was much less of that business this year. And so that's a bit of a headwind. You also had, I think, potentially some weather impact. I mean, obviously, it was a tough winter in markets like New York and Chicago, particularly. We were surprised and encouraged over the course of the quarter how little impact weather seemed to have on our -- the nationwide RevPAR numbers. But I think when you look at New York and Chicago, it is conceivable there was some impact on RevPAR from weather-related events. But having said that, and New York, Manhattan supply is growing robustly. And I think full year, we're expecting supply growth in New York of more like 10 percent than 5 percent. Those are stunningly big numbers. Having said that, demand for New York is very strong globally.

Carl Berquist: Occupancy still runs up around 80 percent in New York City.

Arne Sorenson: Yes. And this is good for the city of New York. I think it'll make New York that much more attractive a destination, and to add some limited-service hotels particularly and some better affordability through those hotels for customers that would like to come to New York is, we think, a very good thing.

Shaun Kelley - BofA Merrill Lynch: Arne, I just want to follow up. It seems like capital returns have been the big -- one of the big investor themes for this quarter anyways. And you gave some good color on where you thought we were in the cycle, but one thing Marriott's been very good about it is kind of as your EBITDA grows, you've kind of consistently added a little bit of leverage to the business. Is there a point in the cycle, particularly as we move into the second half, that you guys begin to maybe reevaluate that strategy? And how do you -- just kind of how do you think about the puts and takes of that versus the fact that your overall credit profile is still in extremely good shape?

Arne Sorenson: Yes. Carl, jump in and just correct me if there's something that you would say differently. But I'd tell you 2 stories. One, 15 years ago or so, 16 years ago when I became CFO, I know we had a view then that we sort of inherited, which was we ought to hold a bunch of dry powder just in case. And over the 4 or 5 years after that, I think we looked at that dry powder and saw that if you never used it, actually you're increasing your cost of capital and probably destroying value. And so you're better off not -- we thought, at least the way things work at Marriott, we're better off not simply reserving some of our capacity.

A second and maybe contrasting story, I suppose, is that in -- we were buying stock in 2007, in the first half of 2007. I don't remember precisely the dollars we spent, but we bought stock at -- in the mid-40s, I would think, in the first part of 2007, and we ended up entering the recession in 2008 and 2009 with debt-to-EBITDA of about 3.25x. And as EBITDA declined, we had less capacity than we might have wanted to have in theory to buy our stock when it bottomed at $11 a share in early 2009.

Having said that, many of us have talked about this over the years, there is a reason the stock was $11 in early 2009. We were all frightened that the world was falling apart. And I'm not sure that if you gave us the truth serum and said if you had been more lowly leveraged in 2009, would you have stepped up and bought significant quantities in the teeth of that apprehension and anxiety. I really don't know what we would have done.

Now you put those 2 things together, we think the right general approach is to continue to increase our nominal debt but not our leverage levels so that 3 to 3.25 is about the right kind of target. We have talked with the board and among the management team about as the recovery continues, it's probably sensible to bring that 3 to 3.25 to 2.75 to 3 here or some modest decline in leverage but not to go back to a place where we think we ought to be sitting on dry powder because we could be sitting on dry powder for a number of years and really increasing the cost of capital and destroying value. So all those things to us really mean not only do we think our stock is still a good value, but we still think the financial structure that we've outlined is one that ought to continue in place for the foreseeable future.

Carl Berquist: Yes, the only thing I would add is given the strong cash flow of the company that the company generates every year, it gives us a lot of flexibility. So that cash flow, together with that leverage of 3 to 3.25, gives us that flexibility to return cash to shareholders and be opportunistic when and if those opportunities come up. We don't find ourselves in a situation where we say, “gee, we just have too much leverage, we can't do it.” So I'll just say it's a, right here at this point in the cycle, a good place to be.

Shaun Kelley - BofA Merrill Lynch: And my follow-up would just be, yes, I think in the prepared remarks, you guys mentioned a little bit about unit growth and developers beginning to come back particularly for some of the limited-service brands. So the question is simply when do you think those openings actually start to really come online in the U.S., right? So most of the openings are coming from overseas. I think we all know that. And then the question is kind of when do you really think that in your portfolio at least, limited-service openings start to actually show up in the kind of the net unit numbers you guys are reporting?

Arne Sorenson: Well, this is a little bit of an overstatement. But obviously, the factual piece of it is about 2/3 of what we're signing in the U.S. today is outside of the top 25 MSAs. And that was the case last year, too. In fact, I think the number was 67 percent, if I remember right. I could be off a little bit.

Laura Paugh: Yes, I think that's right.

Carl Berquist: Yes.

Arne Sorenson: But -- and the piece that's probably an overstatement is to say, oh, the rest of it is in New York. We know that, that's not true. But we've already talked about New York a bit, and New York is the one significant MSA that's getting significant supply growth. And those -- the openings in New York are obviously already happening. I would suspect that New York, we could see supply growth decline, not increase. But we'll have to watch that together and see how it develops over the next few years. The limited-service deals that are being signed in the United States, they will start to open in probably the second half of 2015 and into 2016. But we're still sitting here not looking at much full-service supply growth, and it's not really until you start to see full-service start to move that you get the kind of threat to supply that I think we all worry about. So hopefully, we're -- we've still got a number of years before we see those numbers start to move.

Patrick Scholes - SunTrust Robinson Humphrey: Just double-checking on your expectations for the timing of the asset sales, first off, later this year and then next year. Has there been any change to the EDITION in Miami for the fourth quarter of this year and then selling the New York City EDITION in the first quarter of next year?

Carl Berquist: No, the idea would be to close on the sale of the Miami EDITION hotel shortly after it opens, which is anticipated for the fourth quarter, and then the close on the sale of the Clock Tower, the New York EDITION, during the first quarter of 2015. The residences, they'll close as the contracts close shortly after the hotel opens.

Anthony Powell - Barclays Capital: In the first quarter, there was more occupancy growth than I think we expected and I think many other operators suspected. As you look through the rest of the year, how focused are you on driving rate versus occupancy? And how do you expect higher occupancy to impact profit growth throughout the year?

Arne Sorenson: We are very interested in driving rate growth and think we're doing that as fast as anybody in the industry. But I think one of the things you got to keep in mind for the first quarter numbers is Easter shifted from Q1 to Q2 in the comparison to last year, and that has a roughly 1-point positive impact on RevPAR, not entirely through occupancy but included in occupancy. And conversely, it'll have about a 1-point negative impact on RevPAR in Q2.

Anthony Powell - Barclays Capital: Okay, great. And the pipeline growth has been very impressive the past several quarters. As -- do you have a rule of thumb of, say, every 200,000 rooms in your pipeline, how many will open in any given year? Or what percent opens up on an annual basis?

Arne Sorenson: Well, we don't really -- I mean, we signed 67,000 rooms last year, as we've talked about a number of times before. And I think the guidance we've given you all for openings this year, excluding Protea, is in the 30,000- to 40,000-room range.

Carl Berquist: Including Protea. 6 percent. 6 percent.

Arne Sorenson: Excluding -- 6 percent.

Laura Paugh: 5 percent net.

Arne Sorenson: Right, 6 percent is -- well, you can do the math. So you can see that it takes a while before the higher level of signings we did last year start to open up into the system. But to state the obvious, as more years pass, we'll see hopefully growing gross openings coming through because of this growing number of signings that we've done.

Laura Paugh: And we'll be able to give you a better sense of the longer term opening schedule when we do our analyst meeting in September.

Steven Kent - Goldman Sachs Group: Just on your managed hotels earnings, incentive fees, we've seen a nice improvement over the past few quarters, 2 percent to 3 percent year-over-year. Can you give us a sense as to where you expect 2014 to end? I know you don't give specific guidance to that, but I guess what I'm getting at is, does this -- do those incentive fees gradually inch up? Or are we at the timing of some of those contracts that were signed maybe 5 to 6 years ago that just start to get a bump up or a binary switch-on for some of those incentive fees and how we should be thinking about that? And then on -- you mentioned a couple of times about food and beverage spending. That's very important for your full-service hotels in particular. Are you seeing that in forward group bookings committing to more of F&B so you feel better about that as you're moving along? And are there any specific pockets of strength that you're seeing on the F&B side?

Arne Sorenson: Well, let's take F&B first. So I think if you look at Q1 actual numbers as opposed to booking numbers, food and beverage was up about 9 percent compared to the RevPAR up about 6-ish or 5.5 percent. And that was driven -- I think the group F&B catering business was up like 11 percent, and the outlets business was up 5 percent or 6 percent, something like that, if I remember correctly. And so both are performing well and are the best indication, we think, of what we can expect from group business going forward. Groups, of course, do talk from the beginning about food and beverage spending, but that is often finalized closer to the time that the event actually takes place. And so I think the actual numbers for Q1 are probably a better indication, hopefully, of where we're going and the kind of conversation around the bookings.

We don't have a number for you of the number of managed hotels that we would expect will pay incentive fees on full year 2014. Obviously, we're off to a good start with about a 3-point increase in Q1 compared to Q1 last year, and we ought to see that incentive fees continue to grow. I think it's obvious -- it should be obvious to all of you, as it is to us, that incentive fees are generally not growing so far in the 20 percent-plus range over the last few years but at numbers which are more modest than that. And I think that's driven by the amount of capital that's been invested into our system, particularly those limited-service hotel portfolios we've talked about but also a number of the full-service hotel portfolios. Hang with us until the analyst conference that Laura talked about. This is often the hardest thing for us to give you good guidance about, and I suspect it will continue to be one of the tougher riddles we face when we get together in September. But we'll do the best we can to give you a sense how we think those incentive fees should grow going forward.

Carl Berquist: Right now in our guidance, Steve, we're anticipating it to go up in the low double-digit growth rate for 2014, for the full year.

Ryan Meliker - MLV & Co LLC: Just a quick question, kind of a little bit of a follow-up to Steve's question on incentive management fees. You guys -- North American properties had probably margins up 160 basis points in the quarter. Was that in line with your expectations, above, below? If we see that type of growth throughout the remainder of the year, is there an inflection point in incentive management fees where we might see incentive management fees exceed what's currently embedded in your guidance?

Arne Sorenson: Yes, I mean, I don't have really anything to add on the incentive fee comment other than what we just talked about with Steve. But I think the margin performance in Q1 was modestly better than we would anticipated. The operating team has done a really fine job. I think we had mentioned that utilities costs were a bit higher in Q1 than we would have anticipated because of the colder weather in the North, particularly. But the team really has done well around those kinds of efficiencies in the hotels, in procurement and some other places in order to drive our margins well notwithstanding that. There is a lot of focus. We know our owners are keenly interested in leverage from margins at this stage of the cycle, and we're doing everything we possibly can to drive them. I think the food and beverage growth above RevPAR growth was also a piece of that in the actual results for Q1.

Well, thank you all very much for your time this morning. We appreciate your interest and your support. We look forward to welcoming you to our hotels on your travels.

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