Operator: Welcome to the Marriott International third 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 executive vice president and chief financial officer, Mr. Carl Berquist. Please go ahead.

Carl Berquist: Good morning, everyone. Welcome to our third quarter 2013 earnings conference call. Joining me today are Arne Sorenson, president and chief executive 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, October 31, 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.

We were pleased with our third quarter results. Diluted earnings per share totaled $0.52, above our guidance of $0.42 to $0.46. Some of the improvement compared to our expectations was due to timing, including a penny we picked up in fees, 2 cents for termination and branding fees on the “owned/leased and other” line and a penny improvement in G&A. Not due to timing, we had a penny of outperformance due to strong results at some of our owned & leased hotels, and a favorable 3 cents due to true-ups of our foreign tax provisions and a lower than expected tax rate.

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1 Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.
Third quarter worldwide systemwide RevPAR was strong, rising nearly 5 percent in the third quarter on a constant dollar basis. For company-operated Marriott hotels in North America, transient RevPAR increased 7 percent with group RevPAR rising 3 percent. Transient business benefited from improving mix, as high-rated retail business was very strong, and our group business was better than expected due to strong attendance at group events. Across our system in North America, leisure demand was extraordinary. Third quarter RevPAR from leisure guests increased 9 percent for the Marriott brand, 10 percent for Courtyard and 12 percent for Ritz-Carlton.

In the quarter, we saw double-digit RevPAR improvement in San Francisco, Houston, Miami and Atlanta. Strong overall demand not only drove occupancies higher, it also enabled us to replace low-rated segments, such as government travelers, with higher-rated customers in many markets. Only in Washington, D.C. did we see a meaningful impact from weak government demand. RevPAR in downtown D.C. declined about one-half percent, while RevPAR at our hotels across the Greater Washington market declined 6 percent. Given our significant Washington distribution, the Greater D.C. market alone reduced our North American systemwide RevPAR by about 70 basis points in the quarter.

Outside North America, including our luxury brands, third quarter systemwide constant dollar RevPAR rose about 3 percent. In Europe, strong performance in Eastern Europe offset declines in London, enabling us to raise RevPAR 2 percent. Excluding the London market and the impact of last year’s Olympics, European RevPAR increased 4 percent. Unrest in Egypt reduced RevPAR in the Middle East by 3 percent. In the Caribbean and Latin America region, favorable leisure demand drove RevPAR up 7 percent as greater numbers of groups and leisure travelers enjoyed the resorts in Cancun. And in the Asia Pacific region, strong results in Indonesia, Thailand and Japan drove RevPAR up nearly 5 percent. Excluding Greater China, performance was even stronger, with constant dollar RevPAR up 8 percent.

Total fee revenue was $378 million in the quarter compared to $319 million in the year-ago quarter. We estimate about $37 million of the year-over-year fee revenue improvement was associated with the longer fiscal quarter. Incentive fees were strong in Boston and New York but were flattish in many international markets and retreated a bit in D.C. You may recall that we booked $7 million in deferred base fees in the year-ago quarter associated with the sale of our Courtyard joint venture.

Nearly 25 percent of our full-service managed hotels paid incentive fees in the quarter compared to 19 percent in the prior year. Worldwide, nearly one-third of managed hotels paid incentive fees in the quarter compared to 28 percent in the third quarter of 2012.

Worldwide house profit margins at company-operated hotels increased 110 basis points as room rates moved higher. These margins are not adjusted for the shifting fiscal calendar so they’re not comparable to our calendar quarter RevPAR stats, but we were pleased with the performance. We expect roughly 100 basis points of margin improvement for the full year.
Turning back to the P&L, owned, leased, and other revenue, net of expenses, totaled $34 million in the quarter compared to $26 million in the prior year. We estimate the longer fiscal quarter increased results by approximately $2 million. We enjoyed better results at our leased hotels in the U.S. and higher termination fees. Somewhat offsetting this performance, profits from our leased hotel in London declined roughly $3 million due to the tough comparison to last year’s Olympics and pre-opening costs which totaled roughly $2 million, largely associated with our new EDITION hotels.

General and administrative expenses totaled $167 million in the third quarter compared to $132 million in the prior year. The longer fiscal quarter added an estimated $12 million of higher costs and routine administrative costs increased about $8 million.

Operating income totaled $245 million in the third quarter and our adjusted operating profit margin, excluding the impact of reimbursed costs, was 41 percent.

Unit growth was strong in the quarter. We opened nearly 6,600 rooms and deleted about 2,200 rooms. Nearly 40 percent of those room openings were conversions from other brands. We are on pace to grow our system by nearly 30,000 rooms in 2013, and we expect to delete about 10,000 rooms.

This quarter, we’ve modified how we report our “development pipeline”, as a result of a change in approach at STR. You can see more detail about this change on page A-4 of the press release. Essentially, under our new pipeline definition, we are only reporting signed and binding contracts, including signed contracts for conversions. We are no longer including approved but unsigned projects in our pipeline and are no longer including a hedge. In the third quarter, our pipeline increased to over 144,000 rooms, with over half of the rooms under construction or awaiting conversion. We applaud STR for encouraging this approach to ensure comparability and consistency of information across the industry. We’ll be surprised if everyone in the industry doesn’t join in this effort to improve the integrity of your and STR’s industry supply forecasts.

While we aren’t including “approved” deals in the pipeline, to help you better understand the “deals on the horizon”, we will still provide the number of rooms that have successfully gone through our approval process, but are not yet under contract. While not yet signed, many of these projects are well underway, having been approved after an evaluation of the local market and reaching agreement in principle with the proposed owner or operator.

The number of approved rooms doubled in the third quarter, from roughly 15,000 rooms last quarter to more than 31,000 rooms this quarter. We expect to enter into contracts on many of these rooms over the next three to six months.

Turning to the fourth quarter... we expect North America RevPAR to increase 4.5 to 5.5 percent. Excluding the impact of the Washington, D.C. government shutdown, we believe our North America RevPAR would be about 100 basis points higher in the fourth quarter.
North America group revenue pace for the Marriott brand for the fourth quarter is up nearly 7 percent due to strong short-term bookings. The timing of holidays in the fourth quarter is favorable, with Hanukah and Thanksgiving Day falling in the same low-travel week.

Outside the U.S., we expect fourth quarter constant dollar RevPAR for our entire brand portfolio to increase 1 to 2 percent. In the Asia Pacific region, we expect low single-digit RevPAR growth, despite China government austerity and new supply. In Europe, RevPAR growth should improve as comparisons get easier in the U.K. The Caribbean and Latin America should see continued strong leisure demand and increased RevPAR at a mid-single-digit rate, while constant dollar RevPAR in the Middle East will likely remain challenged.

For full year 2013, our new forecast reflects some fine-tuning of our RevPAR and G&A outlook. On the incentive fee line, we expect very strong performance at our hotels in New York, Boston, San Antonio and New Orleans. And we expect more hotels globally will be paying incentive fees during the year. Despite the October government shutdown and modest RevPAR growth in many international markets, unit growth and higher RevPAR should increase our incentive fees by about 10 percent for full year 2013.

We expect earnings per share to total $0.47 to $0.50 for the fourth quarter and $1.98 to $2.01 for the full year. Excluding the gain on the sale of our Courtyard joint venture last year, we expect earnings per share to increase 21 to 23 percent for 2013, and EBITDA to total nearly $1.2 billion.

To talk about our 2014 outlook, let me turn it over to Arne.

**Arne Sorenson:** Thanks, Carl. Good morning everyone. We are pleased with our strong third quarter performance and look forward to 2014. Our budget process is just beginning, so we aren’t prepared to offer EPS guidance yet, but there is much we do know.

Occupancy rates at our hotels are nearly at record levels in North America, well ahead of industry averages. In the third quarter we aggressively yielded-out low-rated business and saw gains in both RevPAR and room rate share in the U.S. for our largest brands, Marriott, Renaissance, Ritz-Carlton, and Courtyard.

In 2014, with little new U.S. industry supply expected and demand momentum building, we plan to further reduce price-sensitive accounts and to drive rates higher. Our 2014 group booking pace for the North American company-operated Marriott branded hotels is currently up 4 to 5 percent, a meaningful improvement over the 2 percent we reported last quarter. We’re seeing more corporate business, such as training meetings and new product launches. In fact, bookings made in just the third quarter of 2013 for business in 2014 increased roughly 14 percent year-over-year. Sixty-percent of our 2014 group business is already on the books.

Given all this, we expect systemwide RevPAR at North American hotels will likely increase at a 4 to 6 percent rate in 2014, with the improvement largely coming from rate.
Most of Europe is growing again. Across the continent, new hotel supply growth should remain under 1 percent, despite higher supply growth in some markets, including London, Berlin and Amsterdam. Given this, we expect constant dollar RevPAR to increase at a low single-digit rate at our European hotels in 2014. Europe contributed about 8 percent of our fee revenue in 2012.

In Asia, with continued economic growth, we expect mid-single-digit constant dollar RevPAR growth in 2014, constrained a bit by recent supply growth. In China, government policies targeting conspicuous consumption reduced demand in 2013 and additional strict guidelines on government meetings and banquets take effect in January 2014, but comparisons will be easier. In 2012, Asia contributed roughly 9 percent of our fee revenue with about half of that coming from China.

In 2014, we expect constant dollar RevPAR in the Caribbean and Latin America market to grow at a mid-single-digit rate. We are already seeing groups returning to Cancun, strong leisure performance at our Caribbean resorts, and we are looking forward to an exciting World Cup in Brazil next year. We are also hoping for another year of good weather in the Caribbean. CALA represented 5 percent of our fee revenue in 2012.

In the Middle East and Africa region, unrest in Egypt remains a challenge, but elsewhere in the region, demand is strong. The UAE benefits as a safe haven destination while Saudi Arabia hotels should enjoy the lodging demand that comes from massive infrastructure development next year. We are modeling a mid-single-digit RevPAR growth for 2014 on easy comps but recognize the meaningful risk in any forecast for the region. The Middle East and Africa region represented 3 percent of our fee revenue in 2012.

All in all, we are expecting 2014 worldwide constant dollar RevPAR will increase 4 to 6 percent.

I’m sure you’ve noticed our higher G&A spending. This year, we’ve increased resources in development and in a number of new brand launches, as well as feasibility and legal, all to drive new unit growth. As a result, 2013 is shaping up to be a record year for new room signings, and we are well-positioned for unit growth in 2014 and beyond. When you look at core G&A spending, our G&A includes growth-related investments. In fact, only about two-thirds of our G&A is administrative costs and those admin costs are running up about 5 percent in 2013. We expect G&A spending to grow more slowly in 2014.

Next year’s room openings should accelerate from 2013 levels, with roughly 5 percent gross room additions likely, offset by deletions totaling 1 to 1 ½ percent of rooms. Nearly half of the new room openings will likely be outside the U.S. In fact, given our strong pipeline in Asia, we expect to open a hotel in that region on average every eight days through 2016.

We continue to see very little full-service hotel development in the U.S. as the financing environment remains challenging. For limited-service hotels, franchisees are stepping up development with significant equity contributions to make the deals work. We are seeing more development interest in middle American markets, along interstate highways and in small towns where we are under-represented today. In fact, more than 70 percent of our limited-service
pipeline projects in the U.S. are outside the largest 25 SMSAs. We do not expect significant impact on our RevPAR from these new unit additions.

Our management and franchise strategy, along with the strength of our brands, allows us to expand quickly in a low supply growth environment with minimal capital investment. With the broadest brand portfolio in the industry, we offer owners, developers and franchisees brands that attract guests and deliver results. We enjoy significant RevPAR premiums worldwide as measured by STR’s RevPAR index and, as I said earlier, those premiums have increased this year, including in our third quarter. Owners and franchisees expect our brands to perform and they do.

But success is never final so we continue to look for ways to make our portfolio of brands even better. We are extending the success of Marriott.com into the mobile space, attracting a new generation of travelers. Our mobile app has been downloaded nearly 2½ million times since August 2011 and customers have already booked 6.6 million roomnights year-to-date in 2013 on mobile devices and tablets. Adopting technology quickly, we rolled out mobile check-in to more than 300 Marriott hotels just this quarter so guests can use their smart devices to connect with their hotel and experience a faster, more seamless arrival. And earlier this year, we launched Red Coat Direct, which allows a meeting planner to request, respond and connect in real time with our event coordinators on any device.

We invested more than $200 million on our first company-developed 175-room EDITION in London, which opened last month to considerable excitement and fanfare. In its first six weeks of operation, results are exceeding our expectations. Occupancy has averaged almost 75 percent, room rates are over $425. London’s “Metro News” said that our Berner’s Tavern restaurant is set to be the “defining restaurant of the decade”. And we are on track to open EDITIONs in Miami in 2014 and in New York in early 2015.

In total, we are investing approximately $800 million in these three hotels. We expected that this commitment to the EDITION brand would encourage additional development. And that is happening. Including our EDITIONs under development, we have seven EDITION hotels in our pipeline, all subject to signed contracts.

We invested roughly $200 million last year to acquire the Gaylord brand. While integration of these large, complex assets has taken longer than we anticipated, and government austerity has clearly hurt the top line, Gaylord hotels are benefitting from operational improvements and synergies under our management. We’ve also seen a significant uptick in year-over-year transient demand, including Marriott Rewards business. We’ve added sales resources to pursue the profitable 1,000+ roomnight business and expect the brand integration to be complete this year. We are very optimistic about the future. Meeting planners love the Gaylord all-in-one-place experience. The brand is very strong; they are great assets; and we are committed to their success.

We acquired the AC brand at the beginning of 2011. This contemporary hotel brand has sleek, sophisticated European-inspired aesthetics that bring local culture alive to enhance our guests’ experience. Our launch of the brand in the Americas has been warmly received even as demand
has been weak at the hotels in Spain and Italy. Franchisees are excited about the brand and we have 15 AC projects signed or approved on this side of the Atlantic and we’re looking at another two-dozen sites. We already have projects underway in important markets such as San Diego, Chicago and Miami Beach.

Where we can grow without capital we will do so. In fact, we announced the MOXY brand earlier this year with Inter IKEA. The brand is focused on the large 3-star segment in Europe and on the millennial traveler looking for style at attractive prices. We’ve already identified nearly 30 sites, approved a dozen projects, and we expect the first hotel to open in Milan this spring.

Occasionally, we will invest capital to accelerate product initiatives in our existing brands. Just a few weeks ago, we acquired the Charlotte Marriott for roughly $115 million. We’re going to be using the hotel to prove some new product innovations before deploying systemwide. We expect to sell the hotel subject to a long-term management agreement and will not own it for long.

Finally, we’ve employed capital to enter new markets. We seeded the India market with a joint venture and have recently seen other developer interest emerge, allowing us to open our first Fairfield hotel this month. We also expect to invest in new hotels in Brazil to seed that emerging market. We continue to look at investments in other emerging markets that offer opportunities for long-term growth.

We expect total investment spending in 2013 will total $600 to $700 million. For some time, we have been modeling about $100 million in asset sales and loan repayments in 2013. But actual proceeds from capital recycling may be higher as we’re making steady progress on the sale of the three EDITION hotels. We have a “letter of intent” for all three properties in a transaction that would monetize the London EDITION at the contract’s closing, which may occur by year-end, and the Miami and New York properties upon their opening. We are also working to sell a couple of other hotels, probably closing sometime late this year or early next year.

As much as investments can help drive shareholder value, there typically aren’t enough attractive opportunities to absorb our cash flow. So we return cash to our shareholders through dividends and share repurchases. In the third quarter, we repurchased 3.2 million shares and bought back 16.6 million shares year-to-date. In 2013, we expect to return roughly $1 billion to shareholders through share repurchases and dividends. And we expect to continue to repurchase shares in 2014.

In summary, we are very bullish about the future. We see great momentum in demand with meaningful group business already on the books. Supply growth is modest in most markets. We are aggressive on pricing and anticipate a 4 to 6 percent RevPAR worldwide constant dollar growth in 2014. With strong RevPAR growth, mostly from rate, more hotels should be paying incentive fees. Room additions are accelerating as we enter new markets and roll out new brands. We expect to increase our rooms distribution by roughly 5 percent gross in 2014 alone, with most of that already under construction. We should experience considerable operating leverage in 2014 as
G&A grows more slowly than in 2013. Taken together, these elements imply a strong 2014 and attractive cash distributions to our shareholders through dividends and share repurchases.

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 are not limited to one hour today and expect to stay until all your questions are answered.

Question and Answer Session:

Jeff Donnelly - Wells Fargo: Arne, since you just mentioned it, as it relates to the sale of the EDITION hotels, can you talk about how the valuation was determined for those properties and was that a function of construction cost or was it based on a multiple of forecast earnings performance?

Arne Sorenson: Well obviously the buyer had to get comfortable that the price was fair and so they certainly looked at forecasted returns on the assets. But fundamentally, it was driven by our estimated cost of completion all-in, including soft costs and hard costs for the three hotels.

Jeff Donnelly - Wells Fargo: Is there any sort of claw back in the purchase price if performance falls short or --

Arne Sorenson: Essentially, no. I mean, it's a long-term management contract. Our risk is really fundamentally about whether it costs us more or less to get these hotels completed and opened than we estimated.

We bear the construction risk around cost, which in some respects is purely about cost and in some respects is about timing and how long that capital is tied up in the projects. But that's our fundamental risk. There are of course performance termination provisions and others in the contracts, but they're reasonably standard.

Jeff Donnelly - Wells Fargo: Thanks.

Harry Curtis - Nomura Securities Intl: Good morning. You probably are going to guess that this question is coming. Share repo, I was surprised that you only bought 3.2 million shares with the stock in the low $40s, given that your net debt is up only about $100 million since the end of last year and you've got proceeds coming from the sale of EDITION. So why less aggressive? Why not be a little bit more market -- sensitive to the market price, is I guess what I'm asking?

Carl Berquist: That's a good question, Harry. As we look at share repurchase we take a lot of things into consideration. Our anticipated capital spending and, as Arne mentioned in his remarks, we've actually -- our estimate now is about on the top end about $100 million less than what we were expecting.
As you look at the EDITION transaction, we are still only under an LOI right now, letter of intent. We're confident that we'll get this deal done, but it's not done yet. But hopefully by the end of the year we could get that deal signed. But it's not done yet.

And then we looked at other transactions. As Arne mentioned, we bought the Charlotte Marriott hotel during the quarter. So we evaluate everything and as we look out right now for the full year 2013, we're looking at returning about $1 billion to shareholders, which is a little higher if you think about the $800 million to $1 billion we talked about before in the form of dividends and share repurchase.

**Arne Sorenson**: Harry, we've talked for years about targeting our debt to EBITDA at about 3 to 3.25 times adjusted debt to adjusted EBITDA, taking into account lease exposure and guarantee exposure and the like. And that's about where we ended the third quarter, in that range. We may pine for the days when the stock was that cheap and we'll miss the opportunity to do it again, but we hate to spend the money before we've received it and drive those leverage ratios higher than our target.

**Harry Curtis - Nomura Securities Intl**: Okay. Understood. I just wanted to register the comment that the market has an opportunity to give and I had hoped that you would take greater advantage of it. That's all.

**Felicia Hendrix - Barclays Capital**: Good morning. Arne, as you think about next year you gave us some color on your RevPAR outlook for 2014, thank you for that. There is a potential that we have a similar government debacle in the first quarter as we just had, so I'm wondering if that was contemplated in your outlook?

**Arne Sorenson**: No, it's really not. You could hear we've got about a point of RevPAR impact estimated for the fourth quarter of 2013. And in fairness, there's still some guesswork on that. We would guess that October hopefully will contain most of the impact, but you had meaningful disruption, particularly around government travel and travel which is loosely connected to government.

So across from our offices here is the Marriott Suites. GM told me very early in the government shutdown that NIH groups had cancelled. These are folks obviously working on studying for cures for cancer and that sort of thing, so not the thing you think of immediately when you think about government shutdowns.

We'll have to see how that builds. I am hopeful, but it's hard to be confident that we will avoid another government crisis in January or February. Obviously if we had a government shutdown and the longer it lasts, the less good news there is in that. But that is really not factored into our numbers.
Felicia Hendrix - Barclays Capital: Okay. Thank you. And then just as a follow-up, on your group outlook I thought it was encouraging that you said that your in the quarter, for the quarter bookings were strong.

Arne Sorenson: Yes.

Felicia Hendrix - Barclays Capital: In the quarter. Do you have any sense if that trend will continue? I know it's so short term so it's hard to have visibility. But maybe your salespeople are telling you something encouraging?

Arne Sorenson: If you look back at the last six or seven quarters, what we see is business booked in the quarter for future periods up in all but a couple of those quarters. Qs 1 and 2 this year were down very modestly. So not significant, but they were down and obviously to be up 14 percent in Q3 is a positive inflection point. I think it looks more like the quarters we saw in 2012 and hopefully it gets us back sort of to the trend line that ought to continue.

Felicia Hendrix - Barclays Capital: Great. Thank you so much.

David Loeb - Robert W. Baird & Company: Good morning. Arne, Carl, can you give us a little bit of an idea about the value of the condos at the Miami EDITION? And in all of these EDITION asset sales, is there any -- are any of the proceeds shared with Schrager or is that purely on the licensing side?

Arne Sorenson: The rough order of magnitude, the condos in Miami are about $100 million in estimated proceeds from buyers. We have about 60 percent of the square footage that is under contract to be sold already, including one which I think defines the largest residential sale in Miami ever. And the pricing has been about $3,000 a foot. So it's been very attractive to date.

Having said that, I think when the dust all settles and we collect the proceeds from our buyer of the hotels and the proceeds from the residential, our best guess is we're going to essentially recoup our invested capital and we're not looking at either the residential or the hotel side as to drive meaningful book gains.

David Loeb - Robert W. Baird & Company: And on the Schrager piece?

Arne Sorenson: And the Schrager piece, by and large Ian's involvement with us is as a fee earner, not as a capital investor in the hotels and he will generally not be getting any percentage of capital return, if you will.


Ryan Meliker - MLV & Co.: Good morning, guys. Just a quick question. In your guidance you talked about the fact that you've got higher development costs in the fourth quarter to drive unit growth. I guess I'm looking at, if I look at the managed system it looks like from a managed system
standpoint room counts have been declining, I guess over the past seven quarters or so, it looks like excluding the Gaylord acquisition, you're down about 3,000 rooms.

We know managed rooms generate more fees per room than franchised. So help me understand what's going on in the managed system. Are you being forced to spend more to either maintain contracts, to get new contracts than you have in the past? Are you losing more contracts than you've in the past? Are you pushing properties out that don't meet the standards? Just help me understand what's going on in the managed system. Obviously franchised is going really well.

**Arne Sorenson:** So it's really -- it's a tale of two worlds in some respects. I think the managed portfolio has been growing the least or maybe even declining in the United States for the longest period of time. And generally outside the United States the managed portfolio is and certainly will continue to grow.

When you look in the United States, the fee levels are actually not that different. Franchise fees tend to be a higher percentage of rooms revenues than management fees, at least for base management fees, and so when you look over time the base and incentive fees are roughly equivalent to the franchise fees.

I think the biggest driver for this is -- I guess I'd identify two issues off the top of my head. One would be that there is a fabulous development in the expertise and quality of our franchise partners, which has been a steady evolution over 20 years or so. They run excellent hotels and I think as a consequence there is -- has been an increasing share of capital interested in investing in hotel real estate in the United States which prefers franchise to the managed formula. I think the second thing that we're seeing is in the United States as some of our hotels age, we're seeing that the ability to -- either we kicked them out of our system, so in the quarter we lost 2,200 hotels, I think.

**Laura Paugh:** 2,200 rooms.

**Arne Sorenson:** 2,200 rooms, excuse me. Boy, that would be a problem. (laughter) We lost 2,200 rooms. I would say about 60 percent, 65 percent of those rooms left the system because of product quality.

We really didn't want those rooms in the system. And because 20 years ago or 15 years ago or 25 years ago, whenever those hotels entered our system, we were much more predominantly managed, we are tending to lose because of age and quality issues more managed hotels than we're losing franchised hotels, which obviously has an impact on that number. And to some extent, the extent those hotels can be saved, they often require new capital to come in, a new owner to come in and say we're going to substantially reinvent this hotel and bring it up to current standards.

And again, because there's a lot of capital interested in the franchise model, we're seeing that often those projects convert from managed to franchise. Net-net, that's all reasonably good news
because it means if the capital's coming in the hotel's getting reinvented and is representing the brands really well and we continue to earn essentially comparable fees to what we've done in the past. And if they don't, we're culling the system of the weaker hotels which obviously is in our interest to do.

**Ryan Meliker - MLV & Co.:** So I think that makes a lot of sense. So just help me -- as we think out to 2014 and beyond and you've given some color on where your system is going to be growing, should we assume that the trends that we've seen over the past couple of years persist where managed rooms stay relatively flat, franchise is driving the vast majority of your growth? And then, as you think about international, if the domestic market is so different than the international market, are there risks to some of the stronger operators domestically?

I know Interstate and an affiliation with Jin Jiang have looked into China. Are you seeing larger third party operators start to pop up in China and really trying to push the franchise model?

**Arne Sorenson:** Well, it's a big world out there. I think today, I don't think we franchise a single hotel in China. Betsy will double check this when we're talking. But I believe we manage every single one.

And I suspect it will be some number of years before there's meaningful franchise involvement in that market. That is a question ultimately of what companies are set up with institutional expertise to run good hotels and we'd be happy to see that evolve, particularly as we think about expanding in the mid-market in China.

So far our growth has been very much on the high end and I think franchise partners -- confirm, Betsy? Not a single franchise hotel in China.

**Betsy Dahm:** Correct.

**Arne Sorenson:** I think when you look forward in the United States, we are committed to continuing to grow the managed portfolio, but I think we'll continue to see that the franchise portfolio grows faster than the managed portfolio. We do know that we'll have -- you take the Marriott Marquis in Washington D.C. as an example, that's roughly 1,000 rooms that will be managed which will be opening roughly at the beginning of the second quarter next year. And I think we'll continue to see that we add occasionally big urban or high end resort destinations which are Marriott managed and hopefully we'll see that those numbers grow - the managed system in the United States as we go forward.

**Carl Berquist:** The area where we see franchise growing at a rapid pace in our select-service brand where most of those that are coming on are coming on as franchised properties.

**Ryan Meliker - MLV & Co.:** All right. Thanks a lot. I appreciate you taking my questions.
**Joel Simkins - Credit Suisse:** In terms of the domestic incentive fees, can you just remind us what percentage paid out a fee in the third quarter? Also, as we think about just the overall backdrop of increased hotel profitability, should this start to be a bit of a step function increase into 2014?

**Laura Paugh:** Total domestic paying fees in the quarter was 16 percent compared to 12 percent in the prior year.

**Arne Sorenson:** That's percentage of all managed hotels in the United States. And recall that when you look at numbers of hotels, we've got portfolios like that Courtyard portfolio, which we've talked about many times in the past, which is about 120 hotels.

Not one of them is paying incentive fees. It's actually, they're a pooled formula. We'll go from 0 to 100 percent at some point in time but until we do, that's a big number that will keep the total percentage down.

I think as we go forward, we expect that 2013, when the dust settles on the year, we will post nominally higher RevPAR than 2007 for most of our brands in most hotels. That's nominal. So we've had six years’ worth of wage and healthcare benefits and other cost growth, which means our hotel level margins are still lower than they were in 2007.

And it'll probably be still another couple of years before we get back to margins which are comparable to what we had in 2007. That would get us back to the same dollar level of incentive fees, if no incremental capital had been invested in those hotels. And we know that, for example with that Courtyard portfolio, we've got new capital that's been invested and that capital under the U.S. incentive fee formulas that prevail will deserve its return before we start to get incentive fees.

All of that tells us that we would expect to get back to the same dollars of incentive fees in the United States as we had in 2007, is probably still a bit beyond that couple-year target for margins. And is it a linear function between now and that time three or four years from now or a step function? We'll have to see how that evolves. I would think the portfolio is big enough that that's probably more linear than it is a dramatic shift in any particular year.

**Carl Berquist:** I think the only thing I would add there is that as you look at the portfolio with all the growth outside the U.S., the incentive fee growth from international properties will continue to accelerate during that time period. So although you'll ultimately get back to the nominal dollars that Arne was talking about domestically, you'll also substantially increase the incentive fees from the international growth during that time period. Where in fact we see over the next couple years the international incentive fees being larger than the domestic fees as a percentage.

**Joel Simkins - Credit Suisse:** Thank you. That's really helpful color. I appreciate it.

**Joseph Greff - JPMorgan Chase & Co.:** Good morning everybody. Your prior comments dovetail nicely with my question. Looking at your commentary about Asia Pacific growing mid-single-digit
constant dollar in 2014, what would that translate into Asia Pacific year-over-year incentive management fee growth? What's the operating leverage there, just to get a sense of that?

**Arne Sorenson:** That's a good question. I'm not sure we can give you that answer. The mid -- sort of low single-digit growth would imply incentive fees on a same hotel basis growing at only about the same percentage as revenues.

So if you said RevPAR was growing 3 percent, margins are probably flattish and as a consequence you get incentive fees on a same store basis up about the same as RevPAR numbers. And then in addition to that, because of the way the international incentive fees work, which is we tend to get paid our share from the first $1 of profits, the new unit growth should almost immediately start to drive incremental incentive fee performance.

And our new unit growth in Asia will be faster than our average unit growth for the Company as a whole. We're probably talking about high single-digits unit growth in Asia. And so that may drive something like a 10 percent to 15 percent, I suppose, all-in incentive fee growth in some of those Asian markets, even on a 3 percent-ish kind of RevPAR growth.

**Joseph Greff - JPMorgan Chase & Co.:** Excellent. Going back to the definitely more positive group commentary than just a quarter ago, when you look at the mix of the group that's booking at a much faster pace, is that still -- is there still a wide divergence between sort of the smaller group and the larger groups?

**Arne Sorenson:** I think the smaller the group, probably the stronger. But we're seeing improvements really in all segments. I think what we've seen this year -- across our system we know that we're taking significant group share. So our group business has meaningfully outperformed group business of the industry as a whole.

Where we see the strongest performance is in our core hotels, so that's full-service hotels, but full-service hotels that are between 250 and 400 to 500 rooms and they have obviously on average groups that are a bit smaller than the hotels which are 1,000 to 2,000 rooms. A piece of that is also probably about the markets that they're in. Because those core hotels are going to be maybe a little bit less long-haul markets, a little bit less national-driven group markets and a little bit more regional markets and that. And probably a bit more corporate business as opposed to association business. And that's where the relative strength is. But the improvement generally is across the group spectrum.

**Joseph Greff - JPMorgan Chase & Co.:** Thank you very much.

**Shaun Kelley - BofA Merrill Lynch:** Hey, good morning, guys. Arne, in your prepared remarks you mentioned operating leverage a couple of times, which I think is kind of a new edition to the script. Could you talk a little bit more about maybe some of the drivers of that in 2014?
Specifically I think you said kind of core administrative costs up 5 percent this year, which still, given kind of the tepid economic growth that we're seeing out there seems a little high, to me at least. So I was just kind of wondering do you think that number is lower or is it more lapping some of the growth initiatives that you're doing, the new brands and international development that starts to bring the SG&A growth down?

**Arne Sorenson:** I agree with your comments. I think the core 5 percent growth that we're estimating for 2013, we're saying that that core admin growth we expect to grow more slowly than that in 2014. And we are committed to driving some operating leverage through our P&L in addition to the hotel P&Ls that we manage and hope that we can do that in 2014.

We have made a very deliberate effort in 2012 and in 2013 to invest in growth. And you heard us talk a lot about that this morning in the prepared remarks. A significant chunk, particularly when you look at 2013, has been the investments we've made in growing our development pipeline. That's both investing in new brand platforms like MOXY and AC hotels in the United States and Fairfield in India.

It's also about investing in our development team and they are going to have a spectacular year this year. So they're going to do well from a compensation perspective and we're thrilled to be able to pay them that for the production that they've delivered.

I think more in 2012 than in 2013, but it continues in 2013, we've also invested in our teams around the world. So a few years back we were not staffed with senior continent-based presidents and integrated teams around the world. We have them now. We think they are delivering benefits in both the way they're driving RevPAR index performance in their existing portfolios around the world and the way that they're delivering growth.

We're optimistic that those kinds of investments are a bit more of a step function made in 2012 and 2013 and will not require us to continue to increase on a sort of steady basis going forward. And so that we should get more G&A leverage in 2014 and beyond.

**Shaun Kelley - BofA Merrill Lynch:** That's helpful. And then I guess just as the follow-up there, so when you think about the growth component of those investments, are there other things on the horizon that you are still looking at to kind of complement the brand portfolio and whatnot? Or is 2014 a year in which you can really kind of focus on what you have and driving the performance because you've got all the kind of pieces in place?

**Arne Sorenson:** We continue to look always at things. You've all heard me say this before, but when asked these kinds of questions five years ago about whether we were completing our brand lineup, I would have said, in fact did say, that I thought we were reasonably complete and I wouldn't see us adding a whole lot more. That's what I thought at the time.

Notwithstanding that, we've added AC hotels, we've added Gaylord, we added Autograph, we added MOXY and I'm optimistic that we'll continue to add brands. I don't think it will be two or
three a year, which seems to be what we've done recently. But I suspect we'll continue to add some regional or local brands as we go forward to make sure we're getting as much of that global growth as we can.

We're always going to be driven by whether or not those investments we think give us not just better returns than the cost of our capital, but really give us new platforms that allow us to get to a place where we can grow by adding units essentially with no capital investment or very, very slight capital investment.

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

Robin Farley - UBS: Thanks. Looking at your RevPAR guidance for 2014, it's a little bit lower growth rate than some other guidance out there, despite the fact that you have greater exposure to the North American market, which is performing better than the international markets in terms of RevPAR growth. While I of course would not ask you to comment on anyone else's guidance, is there anything in your assumptions -- it sounds like you mentioned potential shutdown is not in there. Is there a mix impact or something that makes it maybe not totally comparable where maybe it's a mix impact that is muting some of your RevPAR growth?

Arne Sorenson: It is almost impossible to comment on somebody else's forecast for 2014. We've seen some of the notes that many of you published in the last 12 hours or so, speculating on this. Some of it ascribes the difference to our greater D.C. distribution and/or our greater reliance on group. Some of you ascribe it to maybe we're a bit more conservative than some others who are in the industry. It's hard to really say what went into the calculus that somebody else did. We've looked --

Robin Farley - UBS: I know. And if I didn't say it correctly, I was saying specifically I realize that you wouldn't comment on that. It's really more your assumptions.

Arne Sorenson: We've done the best we can, looking at group business on the books, looking at where we think transient rate's going to continue to move and looking at how we can continue to shift more and more of that transient business towards higher-rated segments in the hotels which we expect we'll do. We think we'll probably continue to see that our special corporate account shrinks in terms of volume contribution to the U.S. hotels.

As we try and yield out some of the weaker accounts and push them more towards RACK rated business. But 4 percent to 6 percent is the best indication we can give you now.

Robin Farley - UBS: So just to clarify, is there any mix impact that is negative in that forecast?

Arne Sorenson: No, I don't think so. In fact, there is some implied positive mix impact in there. I don't think it's dramatic. And as you could tell from our prepared remarks, we expect that most of that RevPAR growth is going to be rate-driven.

Nikhil Bhalla - FBR: Hi, good morning everyone. Just focusing a little bit on the trends by the select-service and the full-service segments. If you look at year-to-date, your full-service segments are outperforming the select-service, which wasn't the case so much last year I think. And then select-service tends to have more transient type of business than full-service, obviously. Which as we know has been kind of the lagging part of the business. Could you give us some sense of what the dynamics are? Why is it that full-service hotels are now outperforming the select-service hotels?

Arne Sorenson: Well, it's interesting. If you look at the year-to-date figures -- excuse me, look at the three-month figures for -- excluding Ritz-Carlton we've got full-service up in the United States by 5.3 percent and limited-service by 4.9 percent. Not a dramatic difference between the two. And on the year-to-date numbers, again, excluding luxury, it's 5.4 percent systemwide, full-service compared to 4.6 percent for limited-service.

And I think you've got a couple of things going on there. One is the group mix is growing less quickly than transient and so that means full-service is on average a little less frothy than it would be if it were simply looking at transient only.

I think the second is you get in the limited-service portfolio particularly a relatively broader distribution in markets other than the top 25 markets in the United States. And the top 25 are still driving outsized RevPAR growth. Obviously, not all 25 are the same. Washington is quite weak.

But you look at San Francisco, you look at Houston, you look at Chicago year-to-date, you look at a number of these cities and they're performing extremely well. And the full-service portfolio will be skewed more to those higher-performing markets.

Nikhil Bhalla - FBR: Got it. So that explains that. And just one follow-up question on the group pace for 2014. If you were to go back and look same time last year for 2013, I think you'd said something about your group pace being up 7 percent. Is the interpretation correct that maybe your group base for 2014 isn't shaping exactly at the same strength level as it was same time last year, looking into 2013, or is that not the right way to look at things?

Arne Sorenson: Well, I don't remember off the top of my head what we said at the end of the third quarter in 2012. We can pull that up as we talk. But if you're right, obviously it means we have relatively less on the books today for 2014 than we did then for 2013.

Having said that, 2013 obviously got hit on -- in the year, for the year bookings because of really two government crises that took place, the sequestration early and then the government shutdown later in the year. Hopefully we won't have those same threats going forward. I think the better news is that we've increased from the 2 percent to the 4 percent, or 4.5 percent really is where we
sit for the Marriott brand, up today compared to just about the 2 percent we were up a quarter ago.

**Nikhil Bhalla - FBR:** Thank you, Arne.

**Smedes Rose - Evercore Partners:** Thank you. I think most have been asked and answered. Just wanted to ask you, just back on your group outlook, last quarter you mentioned that you were seeing a lot of corporate caution and it sounds like that's changed a lot now. Just wondering, when you talk to your folks that are booking the group meetings, is it more a function of timing that we're just that much closer to 2014, or do you feel like kind of corporate America has changed its tune a little bit in terms of booking these meetings?

**Arne Sorenson:** It's a good question. I think it's probably a little bit of both, but maybe more the inevitability of timing than it is a throw caution to the wind kind of attitude. We've seen improvements to be sure. We're gratified by that. But I don't think we should overstate it.

I think we've still got companies broadly out there who are a bit fearful about the status of government and what's happening with government and a bit more cautious than they would be if the recovery -- economic recovery were even stronger. You can see that a little bit in the F&B revenue growth in the quarter, which is not as strong as rooms growth. It was up about 3 percent compared to the plus 5 percent-ish on RevPAR.

And so I think that's a sign that people are still being deliberate about making these decisions. But again, incrementally better than it was a quarter ago.

**Smedes Rose - Evercore Partners:** And then I just wanted to ask you, I think this is the first time or maybe I just haven't noticed before, where you break out rooms awaiting conversion as a piece of your overall pipeline. Is it typically running at around that percentage? I think maybe 5 percent. Or is this elevated in this environment or maybe just commentary around that?

**Arne Sorenson:** I don't know if it's the first time we've done that or not. I think often we've talked about the number of rooms we've opened that are conversions from other branded hotels.

I think we've been helped. We've always done well converting other hotels to our brands because of what we offer in terms of RevPAR premium and in cost leverage. Particularly around the cost of our reservations platform, Marriott.com and the like.

I think the addition of the Autograph brand has accelerated that meaningfully. Where we are -- that is overwhelmingly a brand which we see existing hotels join and convert to and I think we continue to see the Autograph momentum build.

**Carl Berquist:** I think the other thing on conversions, they're not in the pipeline that long as compared to other types of hotels. Given that once a hotel decides to convert, it's sometimes just
months while they’re in there before they actually come out of the pipeline and they're open with the brand.

**Smedes Rose - Evercore Partners:** Okay. Thank you.

**Patrick Scholes - SunTrust Robinson Humphrey:** Hi. Good morning. I wonder if you can break out when you talk about group revenue pace for 2014 and what's happened also in the third quarter, how does that break out by occupancy and rate growth? And then secondly, what was the group booking pace for the Gaylord brand? Thanks.

**Arne Sorenson:** We won't give it to you for the Gaylord brand. You'll have to wait for Gaylord's --

**Patrick Scholes - SunTrust Robinson Humphrey:** I thought I'd slip that one in there. (laughter)

**Arne Sorenson:** It would be Ryman's call to get that. But the plus 4 percent or plus 4.5 percent for next year is overwhelmingly volume, not rate. So I would think rate is up very modestly, 1 percent-ish or 0 percent to 1 percent, something like that.

Most of what we've got on the books now is driven by volume. There's good news and bad news in that. The bad news is obvious, which would be it would be even more profitable to have higher rate on that business which was on the books. The good news, though, is it suggests greater compression in the hotels, which should aid to pricing both transient business and the group business that has yet to be booked, which is about 40 percent of the total group business we would expect to stay in 2014.

**Patrick Scholes - SunTrust Robinson Humphrey:** Got it. Thanks.

**Steven Kent - Goldman Sachs:** Hi. Two questions. In fact this morning I was watching you, Arne, on CNBC, and you mentioned that in China some of your developers are having trouble getting financing. And I was wondering if you could talk about that a little bit more. And then Carl, could you just go through again what the issue was with the lower tax rate in the third quarter and what that means for the full year?

**Carl Berquist:** I'll do the tax first for you, Steve. We had two things in the tax rate. One was as we filed the international tax returns, you have these true-ups to bring the accruals in line with the actual tax due. And we recorded a benefit as a result of that of about $7 million. That's a one-time item.

In addition, we've been able to manage our tax rate down a little bit. Historically, several years ago we were in the 33 percent, 34 percent area and we're now starting to run closer to 32.5 percent in that area.

For the full year this year we'll probably be 31.8 percent or 31.9 percent. That's just because that blends in all these items for an effective rate. But for our future run rate, I think we've been able to
trim about a half a point off, maybe a little more on a go-forward basis as we've strategized our mix of international and domestic taxes.

**Arne Sorenson:** A big chunk of that beyond Carl and his team's great work is the higher growth of the international portfolio.

**Carl Berquist:** Exactly.

**Arne Sorenson:** Which tends to come in at a lower effective tax rate than the domestic business does.

I don't remember, Steve. Now, I may have said something. It's always a bit frightening to go on those TV channels and not know what you're talking about. But don't really remember talking about difficulty for our owners in getting financing in China.

**Carl Berquist:** You said India.

**Arne Sorenson:** Oh, I may have said something about India. That's right. Carl's reminded me.

India is a difficult market. I did talk about India because there you've got interest rates which continue to be up in the mid-teens for our real estate partners there. It's very expensive debt and I think we'd anticipate that the new deals coming into the pipeline in India, particularly at the luxury end, are going to slow a bit here over the next year or two.

We probably will see Fairfield continue to perform well, maybe Courtyard perform well. But India's a complicated place from a financing perspective at the moment.

**Steven Kent - Goldman Sachs:** Okay. Thank you.

**Bill Crow - Raymond James & Associates:** Good morning, everybody. First topic, Arne, is as we think about 2014 would you be surprised or even disappointed if you didn't return at least another $1 billion to shareholders? And to what extent would the share price have an influence on your decision?

**Arne Sorenson:** Well, let's see. The team is giving me evil eyes here because we don't have a budget yet and as a consequence it's really hard to give you much more in terms of the dollars that we would anticipate returning to shareholders. But the model is working extremely well. You can see the cash that the engine is producing from fee business around the world and that will continue to grow next year.

And we ought to see that not only should we hopefully close on the sale of the London EDITION this year, but hopefully we'll get Miami out the door next year as it opens. New York will be interesting. It could be late 2014. I think probably the best guess is it will probably be early 2015. But all of that would be good news as well.
And so I would expect that we ought to continue to deliver healthy capital back to our shareholders through dividends or share repurchases. In the fullness of time, which I would interpret to include a full year, when you look at a full year, stock price is not a huge factor. Stock price will be a factor in a shorter term way.

So if we're looking in an individual quarter or over maybe even a couple of quarters and we see the stock running aggressively, we're probably less likely to chase it. But fundamentally what we're doing is returning capital to shareholders and keeping the leverage levels at a position where we think our cost of capital is ideal. And I suspect we'll continue to do that even as the stock price continues to appreciate.

There are folks who obviously asked after 2007 when we got into the depths of 2009, don't you regret the purchases you made in 2006, 2007? And of course it's hard to say no because when you sit and look at it from 2009 when the stock I think hit a low of about $11, if I remember right, you'd love to be able to have all those dollars you spent in prior years so you could snap up as much of it as you can.

But we're not really in a position I think where we can be that much smarter than the market. And so while we will pay attention to the stock price, fundamentally what we're talking about doing is returning the excess cash to shareholders on a relatively current basis.

**Bill Crow - Raymond James & Associates:** Fair enough. The second topic, quickly here, on group. Any trend changes on cancellation and attrition? That's point one. And point two is we're hearing that there is increased activity in both Aurora and suburban Phoenix on Gaylord development. Can you give us any update on those two properties?

**Arne Sorenson:** There's no real change in trend lines on attritions or cancellations. Obviously in the Washington market you've got the whole government shutdown and the impact of that and we'll have to dissect that for you when the dust settles, which presumably we'll talk about a quarter from now. But I think generally we see, again, positive building trends in the group space.

We don't have much to say on Aurora or Mesa. I think Aurora is a bit farther along. It is something that the state and the local government would very much like to see happen. If a deal can be put together on economic terms we'd obviously love to see it happen.

The hotel owners downtown Denver don't love the notion of a big hotel opening in Aurora, so you hear some noise around that occasionally. But we have good partners who are working particularly on the Aurora project to see if we can't get a deal put together that makes sense. And we're hopeful about it, but it's certainly way too soon to be even assessing odds on it.

**Carl Berquist:** Bill, we would not build that on our balance sheet.

**Bill Crow - Raymond James & Associates:** Understood. Great. Thank you.
Ian Rennardson - Jefferies & Co.: Good morning. I was wondering about the shape of RevPAR over the quarter. Was it pretty steady or was it like some of the other people have reported, stronger in July and August and weaker in September? Thank you.

Arne Sorenson: I think like others, certainly when you think about the United States, generally stronger in July and August and a bit weaker in September. I think a piece of that is the threat of the government shutdown, which became more apparent in September. And would not ascribe a deteriorating trend line from a calendar perspective because of that.

Ian Rennardson - Jefferies & Co.: Thank you.

Arne Sorenson: You bet. All right. Thank you all very much for your time and attention today. We appreciate your interest in Marriott and look forward to welcoming you into our hotels. Get on the road. Thanks.

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