# Marriott International, Inc.
# First Quarter 2019
# Earnings Conference Call Transcript[1]
# May 10, 2019

**Operator:** Welcome to the Marriott International first quarter 2019 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 afternoon, everyone. Welcome to our first quarter 2019 earnings conference call. Joining me today are Leeny Oberg, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

First, let me remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release that we issued earlier today, along with our comments, are effective only today, May 10, 2019, and will not be updated as actual events unfold.

In our discussion today, we will talk about results excluding merger-related costs and reimbursed revenues and related expenses. GAAP results appear on page A-1 of the earnings release, but our remarks today will largely refer to the adjusted results that appear on the non-GAAP reconciliation pages. Of course, you can find our earnings release and reconciliations of all non-GAAP financial measures referred to in our remarks also on our website.

Before proceeding to talk about our results, let me take a minute to talk about the announcement we made last week about my cancer diagnosis. As we mentioned, I have stage II pancreatic cancer. Thankfully, the medical team at Johns Hopkins has seen this many times before. They believe we have caught it early, that it is operable and that the course of treatment is proven. I am grateful for all the messages of support from the investment community, as well as from Marriott's community of associates and business partners around the world. With the support of an extraordinary strong team of Marriott executives, we are going to soldier on.

Now, last month, we opened our 7,000th property, the 27-story St. Regis Hong Kong. After opening this landmark hotel, our development pipeline at quarter-end totaled roughly 475,000 rooms compared to 463,000 rooms at the end of the first quarter 2018. Gross room openings totaled nearly 19,000 rooms in the first quarter compared to 15,000 rooms in the year-ago quarter. Net room openings were almost double the number from the prior year.

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

Almost 216,000 rooms in our pipeline, or 45 percent, are already under construction, the largest number of under construction rooms in our industry. At our current pace of openings, our under-construction pipeline represents the equivalent of 2½ years of embedded gross rooms growth. The remainder of our pipeline represents another 2½ years of growth.

Our Legacy-Starwood brands account for roughly 30 percent of our development pipeline. Among our 17 luxury and upper-upscale brands, the rooms pipeline for the Sheraton brand is second only in size to the Marriott brand. In the first quarter of 2019, we opened four new Sheraton hotels and signed three new Sheraton deals, including a new build 250-room Sheraton hotel in Bradenton, Florida. More than a quarter of Sheraton's existing portfolio is under or has committed to renovation.

Our limited-service brands are growing rapidly. Globally, our limited-service pipeline, largely upscale brands, includes more than 285,000 rooms, nearly 2½ times the number of pipeline rooms in those brands five years ago. Outside North America, our limited-service pipeline is now nearly 3½ times its size in 2014. We are growing these brands in markets around the world with a variety of approaches, from modular construction… to urban high-rises… to multi-brand hotel complexes. We are developing new prototype designs for Fairfield Inn and TownePlace Suites to better suit smaller markets and we continue to add development talent to make these deals happen because the growth opportunity is meaningful.

We see evidence that owners and franchisees prefer our brands. According to STR, more than 1 in 3 rooms that are under construction in the U.S. today will fly one of our flags. And while our existing distribution globally is more modest… still, 1 in 5 hotels under construction globally will be flagged with a Marriott brand.

We continue to expect to see net rooms growth total approximately 5.5 percent in 2019 with rooms deletions of about 1 to 1.5 percent. We deleted 3,000 rooms in the first quarter of 2019.

I visited several markets in China in late March. The big news there is Marriott Bonvoy and Alibaba. Less than two years ago, we formed a new joint venture with Alibaba to improve service and sales for Chinese guests. In the first quarter of 2019, property revenue from our newly designed Alibaba channel more than tripled year-over-year, while the level of new Marriott Bonvoy enrollments in China doubled over the prior year quarter. We are excited to welcome these new members to our hotels around the world.

Marriott Bonvoy offers guests the largest and most compelling collection of hotels and experiences. At the end of the first quarter, membership in Marriott Bonvoy reached nearly 130 million worldwide, up roughly 5 million from year-end 2018. Approximately 40 percent of the new signups came from China. Worldwide, loyalty redemption revenue at our hotels rose at a double-digit rate in the first quarter.

We recently announced our home rental initiative. In a survey we conducted in 2018, we found that over one-quarter of our loyalty program members who responded had used home rentals in the prior 12 months. During our home rental pilot in 2018, which was available in a few European cities, nearly 90 percent of our guests were Marriott Bonvoy members and over 80 percent were traveling for leisure. The average length of stay in our pilot was more than triple that of the typical hotel guest.

With the successful European pilot, we decided to launch Homes & Villas by Marriott International, offering guests access to a growing number of premium and luxury homes and villas in over 100 destinations across the U.S., Europe, the Caribbean, and Latin America. Our commitment to providing travelers with full residences, including kitchens and other amenities, guided our selection of homes. Our desire to complement our core hotel offerings similarly influenced our selection of markets. We will work with select property management companies who are already managing these homes and estimate roughly 40 percent of these markets we are launching in are new to Marriott.

We believe our highly-curated home rental product, fully integrated into our loyalty program for earning and redeeming points, will enhance Marriott Bonvoy member travel experiences and increase the value of our loyalty program. Home rentals should enable our loyalty members to stay with Marriott throughout any travel experience, allow us to leverage our strong brands and expertise in an evolving competitive landscape, and ultimately drive a greater share of wallet for our portfolio.

In April, we signed a new multi-year agreement with Expedia, which should enhance our leisure packaging platform, Vacations by Marriott, and leverage Expedia's technology for a new business opportunity to be launched in the fourth quarter of 2019. With the changes in the agreement, we expect our owners and franchisees will see improved overall economics from the relationship.

In the first quarter, worldwide house profit for comparable company-operated hotels increased an impressive 1.6 percent. While the integration is largely complete, our hotels continue to benefit from synergies associated with the Starwood merger. On the revenue side, we reduced discounting at Legacy-Starwood hotels in the first quarter and, across our system, increased the proportion of bookings coming from our digital channels. Direct digital revenue bookings at our hotels globally increased over 20 percent in the quarter and now represent over 30 percent of roomnights. Revenues booked on our mobile app increased more than 70 percent year-over-year while our revenues booked on OTAs worldwide declined 4 percent. Yielding OTA business helped hotel profitability, even as it likely depressed our first quarter RevPAR growth by a few tenths of a percentage point. Our global RevPAR index rose 100 basis points in the quarter.

Let's talk briefly about the regions. Systemwide constant dollar RevPAR in our Asia Pacific region increased 3 percent in the quarter. RevPAR growth was strong in India, Japan, Indonesia and in the major markets in Greater China, but was somewhat offset by weaker results in South Korea, Thailand, and the Hainan Island market in China.

In the second quarter, we expect mid-single digit RevPAR growth in the region with fewer headwinds from South Korea and Hainan Island. Future RevPAR performance will depend somewhat on the economic impact of ongoing U.S./China trade negotiations, particularly in markets that rely on manufacturing. While we await the outcome of those negotiations, our forecast assumes Asia Pacific RevPAR will increase at a mid-single digit rate for the full year 2019.

In the Middle East and Africa, systemwide constant dollar RevPAR declined 4 percent year-over-year. RevPAR growth in the UAE declined 8 percent on flat demand as supply growth in Dubai increased by 11 percent. At the same time, RevPAR in Cairo and the Red Sea resorts rose sharply on strong Eastern European demand.

For the second quarter, we expect MEA RevPAR will again decline, albeit less significantly than in the first quarter. Significant supply growth in Dubai is likely to persist but we should see stronger demand in the Holy Cities in Saudi Arabia. Ramadan started May 6$^{th}$, 10 days earlier than last year, which should push some business travel in the region from second quarter to later in the year. For the full year, we expect RevPAR will decline at a low single-digit rate in the MEA region.

In Europe, systemwide constant dollar RevPAR rose 2 percent in the first quarter. U.S. travel to many markets in Europe was strong, with considerable numbers of loyalty redemptions. RevPAR in London increased by 4 percent year-over-year. At the same time, Brexit uncertainty kept many U.K. travelers at home, constraining growth in many warm weather European destinations. Travelers avoided center city Paris due to the continued yellow vest demonstrations. With the Biennale in Venice beginning this month and strong U.S. demand expected to continue in most markets, we believe RevPAR in Europe will increase at a mid-single digit rate in the second quarter and for the full year.

In the Caribbean and Latin America region, systemwide constant dollar RevPAR increased nearly 4 percent in the quarter. In the Caribbean, RevPAR rose 8 percent on strong demand, as several U.S. airlines increased lift to the islands. RevPAR growth in Brazil was very strong on record demand during Carnival in Rio de Janeiro, while continued travel warnings took RevPAR in Mexico down 3 percent. Looking ahead, we expect RevPAR growth in CALA will moderate a bit, increasing at a low single digit rate in the second quarter and full year as competitor hotels reopen in the Caribbean.

Systemwide RevPAR in North America rose nearly 1 percent in the first quarter. RevPAR was constrained by the partial federal government shutdown in January, tough comparisons to hurricane recovery in Florida and Houston, and the lingering impact from the fourth quarter labor strike in Hawaii. Excluding these factors, we estimate our systemwide RevPAR growth would have been roughly 70 basis points better than the reported number. Our RevPAR index in the U.S. increased nearly 100 basis points in the first quarter.

Group RevPAR across North America increased 3 percent on strong citywide demand in Atlanta and San Francisco, and the favorable impact of the timing of Easter. While Easter timing will present a headwind for group business in the second quarter, the negative hurricane and government shutdown impact should be behind us. Our group revenue booking pace for the full year 2019 is flat.  New bookings for 2019 increased in the first quarter and surged in April, so we expect group RevPAR will be higher for the year.

First quarter transient RevPAR from our largest 300 corporate accounts in North America rose 3 percent but overall transient RevPAR was flattish in the first quarter, largely due to weak demand in March.  Given this, we expect North American RevPAR will increase by 1 to 2 percent in the second quarter and 1 to 3 percent for the full year.

Marriott is a dynamic company.  We've created a powerful lodging portfolio… managing and franchising across the highest value tiers.  With the Starwood acquisition, we recognize that we are in a unique position to truly delight sophisticated frequent travelers with an unparalleled loyalty program and a wide range of travel experiences.  The more our guests are engaged in our loyalty program, the more profitable business opportunities we can pursue, even outside the traditional lodging space, such as credit card and residential branding.  This year we expect to earn $440 to $450 million in credit card and residential branding fees.  Incidentally, credit card signups rose 20 percent in the first quarter year-over-year.  In addition to unit additions and RevPAR growth, such opportunities should drive higher returns to our shareholders, even as we retain our asset-light approach to business.

Before turning the call over to Leeny Oberg, let me take a moment to recognize our extraordinary Investor Relations leader, Laura Paugh. We announced this morning that Laura will retire from Marriott at year-end. Laura Paugh's nearly 40 years at Marriott have literally included our entire history of modern-day investor relations.

When she began, Marriott, like many other companies, did not even do quarterly earnings calls such as this one. She has not only built this discipline for us, she has been recognized by you as one of the best investor relations professionals in the entire public company universe, not just the hospitality space. She has been a partner, a mentor and a friend to me for over 20 years of involvement in investor relations. All of us are grateful for her service and expertise. Thank you, Laura.

Now for some more thoughts about first quarter performance and our outlook, let me turn things over to Leeny.

**Leeny Oberg:**  Thank you, Arne.  I, too, would like to express my deep appreciation for Laura's countless contributions and dedication to our company. Her strategic insights and determination to get the right answers have no doubt contributed meaningfully to our shareholder value over the years. While I will personally miss her a great deal, I know you will all join me in wishing her a very happy retirement and celebrating her accomplishments during the rest of this year.

Now on to the results.  For the first quarter of 2019, adjusted diluted earnings per share totaled $1.41 compared to $1.34 in the year ago quarter.  This was 8 cents over the midpoint of our guidance of $1.30 to $1.35, largely due to better than expected windfall tax benefits and other favorable discrete items on the tax line. Recall that in the prior year quarter, adjusted EPS included 11 cents from gains on hotel sales.

Gross fee revenues totaled $895 million, a 6 percent increase year-over-year, largely due to unit growth, and higher incentive fees and credit card branding fees. Incentive fees increased 5 percent with good margin performance and strength at our Florida and California resorts during their strong seasons. Credit card fees alone totaled $93 million, up 8 percent while other non-property fees totaled $39 million. With a stronger U.S. dollar, first quarter fee revenue reflected nearly $7 million of year-over-year unfavorable impact from foreign exchange, net of hedges.

Owned, leased, and other revenue, net of expenses, totaled $50 million in the first quarter, a $20 million decline from the prior year due to $21 million of lower termination fees.

General and administrative expenses totaled $222 million compared to $247 million in the prior year quarter. G&A in the first quarter of 2018 included a $35 million expense for a supplementary retirement savings plan contribution.

First quarter adjusted EBITDA rose 7 percent year-over-year to $821 million, consistent with our 6 to 10 percent growth guidance. While not included in adjusted EBITDA, expenses associated with last year's data security incident totaled $44 million in the first quarter, netted against $46 million of insurance recoveries.

We expect gross fee revenue for the second quarter will total $990 million to $1.01 billion, a 4 to 6 percent increase over the prior year. Our second quarter fee revenue estimate assumes higher credit card branding fees but modestly lower incentive fees due to property renovations and unfavorable foreign exchange.

We expect owned, leased and other revenue, net of direct expenses, will total roughly $80 million in the second quarter while G&A should be $225 to $230 million. Our guidance assumes no further asset sales in 2019 beyond those that have already been completed.

These assumptions yield $1.52 to $1.58 diluted earnings per share for the second quarter. Recall that the second quarter last year included 26 cents in gains from the sale of hotels. Adjusted EBITDA in the second quarter should total $940 to $965 million, flat to up 3 percent over the prior year.

For the full year 2019, we believe gross fee revenue could increase 6 to 8 percent over the prior year, with about $15 million over our last guidance due to stronger expected incentive fees. We believe incentive fees will increase at a mid-single digit rate for the year and continue to expect our credit card and residential branding fees will total $440 to $450 million in 2019. Last year, our gross fees were constrained by strikes in several markets in the fourth quarter.

Owned, leased, and other revenue, net of direct expense, should total roughly $285 to $295 million for the year, a roughly $40 million decline year-over-year. Termination fees totaled $69 million in

2018 and we expect such fees will total $25 to $30 million in 2019, a bit improved from our prior forecast for this year. Results from our Marriott Homes & Villas business will be included in the owned, leased, and other line, and are expected to be immaterial.

G&A should total $920 to $930 million for 2019, about $10 million higher than our last estimate due to higher bad debt expense and admin spending.

These assumptions yield $5.97 to $6.19 diluted earnings per share for 2019. Recall that the prior year included 65 cents in gains from the sale of owned and joint venture assets. Adjusted EBITDA should total $3.615 billion to $3.715 billion, 4 to 7 percent over 2018 adjusted EBITDA, an estimate that is unchanged from last quarter.

As we discussed last quarter, our 2019 guidance does not include merger-related costs and the timing impact of reimbursed revenues and expenses.

Investment spending for the year could total $600 to $800 million, including roughly $225 million of maintenance spending. The remainder includes capital expenditures, loan advances, equity investments, and contract investments. Roughly a quarter of our total investment spending relates to systems initiatives that should be reimbursed over time.

We repurchased more than 8 million shares from January 1 through May 8 for $1.02 billion[2] and we continue to expect to return at least $3 billion to shareholders through share repurchases and dividends in 2019. This assumes no further asset sales during the year.

Our balance sheet remains in great shape. At March 31st, our debt ratio was within our targeted credit standard of 3 to 3.5 times adjusted debt to adjusted EBITDAR. We have modeled our 2019 income statement and cash flow forecast at a 3.3 times target.

Now Laura would like to add a few remarks.

**Laura Paugh:** Thanks, Leeny, and thanks for all the kind things both you and Arne have said. I have to say that the best part of my job at Investor Relations at Marriott is working with some very talented colleagues. IR is a team effort, not only including the gifted Betsy Dahm and Laura Pearce, but many, many people throughout the organization, including the broad senior management team.

When we talk about the collaborative nature of Marriott culture, it is not just a nice story. We have a very good time in IR as I think you can tell. We laugh a lot. We love working with Arne and Leeny. They are just as smart, forthcoming and engaged as they seem.

The other best part of my job in IR is working with all of you. I'm always -- someone's here. I'm always happiest when the phone rings and you want to talk about Marriott, our competitors, the

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[2] Corrected for misstatement

OTAs, the economy or your summer vacation. In the many years I've done IR, I've seen the market move from unreasonable exuberance to irrational despair and back.

I know you faced meaningful pressure to deliver results, and I hope I've helped you as you've evaluated the company. I'll be here through the end of the year and look forward to seeing many of you in person at conferences and meetings in the next few months.

So, let's answer your questions. So that we can speak with as many of you as possible, we ask that you limit yourself to one question and one follow up, as if that’s possible. We'll take your questions now.

**QUESTION & ANSWER SESSION:**

**David Katz - Jefferies LLC:** I have to admit I had probably 4 or 5 questions in my head and I'm struggling to remember any of them. I just wanted to wish all of you the best. But what I did want to talk about is, we've started to get into a range where, just industry-wide, some of the metrics have started to be a bit choppy, and yet the cash generation remains powerfully strong.

If we were to paint a scenario, and I don't think you got quite this draconian at your Analyst Meeting, but if we were to start to talk about RevPAR that was down, call it, 2 percent to 5 percent, have you sort of penciled out what the cash would look like and how your decision process would be altered under those kinds of circumstances? And I'm again not calling or wishing for it, just thinking out loud.

**Arne Sorenson:** Yes. I think…… Leeny can jump in here. I think the best place for you to refer in terms of the financial model is to what we shared with you at the Investor Relations meeting. And you can do some of your own calibration of that and make some assumptions and probably be fairly close. We don't have a model other than that one that we shared with you then.

And I guess I'd just say thematically that while March was a disappointing month in many respects, it is to us not a harbinger of a predictably different environment than the one that we've been going through the last few quarters. Sort of thematically today, I think we would say it's steady as she goes for the next few quarters. We continue to see that when we adjust for hurricanes and strikes and holidays and the like that we're poking along broadly between -- broadly around 1.5 percent sort of RevPAR growth. We might have been a tenth or two shy of that in first quarter 2019. But there is some good news too. We talked about good April bookings, for example, in group, a very strong performance for us for the month.

And so while you should do whatever modeling you think is appropriate and make whatever forecast you think is appropriate, I think our caution to all of us would be let's just expect for now that we're going to keep going at sort of the pace we've been going in the last few quarters.

**Leeny Oberg:** The only thing I'll add, David, is -- and we did do a model that actually did assume a 5 percent decline in RevPAR as part of what we talked about at the Security Analyst Meeting. And I'll point out a couple things. One, we're obviously far less dependent on your classic North American incentive fees when you look at both our growth internationally as well as the credit card fees.

And then second of all, I'll talk that -- even in the Great Recession, we ended up with the lowest year being 3 percent growth in net rooms. And so, when you continue to see that sturdy, strong rooms growth and a clearly less volatile franchise and management fee stream, I think it bodes well for really strong cash generation if we were looking at a recession.

**David Katz - Jefferies LLC:** Great. And my one follow-up literally is you made reference to bad debt expense, which I -- just looking back quickly, I'm not sure that we've seen that in some of the prior quarters. What's in there?

**Leeny Oberg:** So sure. That's part of G&A and that's obviously when you end up with, let's say, a terminated hotel that, as part of what happens, you end up not getting all of your reimbursed costs back. It is in the G&A line. It can be a little bit lumpy. It's a really small number.

But then obviously, as we've said this year for our G&A, as part of the increase in the overall G&A that we forecast for the company, about $5 million of that is from bad debt. That's related to a few international hotel situations in Middle East, Africa and Asia Pacific that I think the easiest way to describe is one-off situations. But as you might imagine, the bad debt number for the company overall is way immaterial.

**David Katz - Jefferies LLC:** Understood. Thank you and again, all the best.

**Shaun Kelley - BofA Merrill Lynch:** I'd like to, yes, say my best wishes to you, Arne, on a speedy recovery, and congratulations to Laura on what's been an incredible career. So, my question will be just going over to the RevPAR performance that you saw on the quarter. I think as we look through the metrics that you provide, the numbers that stand out to us were -- we look through the Legacy-Starwood brands. I think most of those, at least on the full-service side, seem to underperform some of the chain scale averages and some of the performance that we saw in the Marriott legacy brands.

I know these numbers bounce around, and we're always ones to pick at little patterns, but could you just elaborate a little bit on that? And I think, Arne, in your prepared remarks, you may have mentioned something about a reduction of discounting. So, did that drive some of that RevPAR performance? Or what should we expect going forward as you continue your integration path?

**Arne Sorenson:** Yes. I think there are a few different factors that are going into this, but it's a perfectly fair question. As -- one of the things I think we -- to start with here is geographic distribution. So, if you look at Smith Travel industry-wide numbers for Q1, you see a 4-point difference in RevPAR performance between the top 25 markets and all others. The top 25 markets in the U.S., according to Smith Travel, were down roughly 1 percent, 1 full percent in RevPAR. The other markets were up 3 percent. So, you've got a 4-point difference in RevPAR performance between those markets. Obviously, that's industry as a whole. That's not Marriott's portfolio uniquely.

And I think when you look at Marriott in its entirety compared to some others in the industry or when you look at some of the Starwood brands compared to some of the Marriott brands, I think you will find that we are much more concentrated in the top 25 markets, and that is inevitably part of this.

When we look at the Marriott brands legacy versus Starwood brands legacy, we can see a couple of other things that are happening. One is the strike carryover in Hawaii, particularly where our bookings are a little bit longer window, first quarter was continued -- they had some strike impact even though the strikes were done. That is disproportionately impacting the Starwood Hotels.

I think the second would be around OTAs, and we called out in the prepared remarks that OTA business is down 4 percent for the combined portfolio in Q1. Interestingly, the Starwood Hotels were about 10 points more reliant on OTAs than the Marriott Hotels were. And as we've gone to one reservation system and one sort of unified revenue management strategy, the shift, if you will, from reliance on those third-party OTAs to internal digital channels probably costs a little bit. We thought it's maybe a few tenths of a point for the portfolio as a whole. The impact there is probably a bit more disproportionate on the Starwood Hotels.

And then there are some changes on other discounting. Starwood had some deeper discount packaging that Marriott did not have. That's probably had an impact in it. But you roll all those things together, those are probably the principal drivers of the difference in the averages beneath. Of course, the portfolios as a whole, you're going to have individual stories with individual assets.

**Shaun Kelley - BofA Merrill Lynch:** And I guess the -- my quick follow-up would then be just any changes you guys think about the broader integration process. And I know when the deal was originally contemplated, I think there was some down-the-road revenue synergy opportunities that you were probably envisioning. Just kind of how you think about those in the context of what you're actually able to deliver right now?

**Arne Sorenson:** Yes. And I think the time is right for that. I mean we've got the combined loyalty program launched. It is in market and being marketed. We've got strong credit card sign-ups. We've got strong share of wallet growth. I think there's a lot we can look at now to be optimistic about the future, and I think it's time to deliver the revenue upside.

**Jared Shojaian - Wolfe Research, LLC:** Just to stick with the same line of questioning here. I mean you called out RevPAR index being up 100 basis points. And we saw pretty sizable increases from your peers as well. So, I guess is the conclusion that the independents are just meaningfully losing RevPAR share right now? And then on that idea, how do you think about the value proposition of branding today versus in the past? Because presumably, there's more value for owners today than there's really ever been. And does that give you the ability to push royalty rates a little bit harder?

**Arne Sorenson:** Wouldn't that be nice? I mean I -- obviously, you won't hear us be unbiased about the value of branding. We think we deliver extraordinary value to our owner and franchisee partners by plugging them into a system with a loyalty program and a very efficient reservation system that delivers substantial business to them at meaningfully less cost than would be the case otherwise.

But I don't think you need to take our word for it. If you look at what's happening with the development pipeline, and we've talked about some of those statistics, but we're about 7 percent of the global industry today with something like 20 percent of the hotels under construction heading towards our brands. So, you can see investors, owners of real estate moving with their feet because I think they see the strength of that.

I think the other thing to remind everybody, and we don't want to get defensive-sounding and we don't want to get too technical on RevPAR index, but RevPAR index is a really important tool, particularly when you're looking at an individual hotel and how it's performing in its competitive set.

But it is not the only measure that is out there to assess how portfolios are performing. In the wake of acquiring Starwood, we have found that many of our competitive sets include many of our own hotels because there will be concentration, particularly in some of these urban markets where we've got a significant number of full-service hotels. And so, we're measuring our performance against our own hotels, not exclusively because we've got to have some others that are in there. And similarly, we are seeing, to some extent, others who are competing in markets that we don't exist in, and so -- if you think about the secondary or some of the tertiary markets. Our brands are not broadly distributed in those markets. And as a consequence, we don't have the impact maybe of newly ramping hotels in those markets or of competition maybe against some of the relatively weaker brands.

All things put together, we are actually gratified in the midst of a massive integration that in the midst of all of that, we still managed to take about 100 basis points index growth both in the United States and globally in the first quarter of 2019.

**Jared Shojaian - Wolfe Research, LLC:** Great. And just on the pipeline, it was down quarter-over-quarter for the first time in several years. I know we shouldn't read too much into one quarter's worth of pipeline data. But I think the pipeline last year and so far this year is growing quite a bit slower than your 7 percent gross unit growth. So, can you talk about that and maybe what you're hearing from developers right now?

**Arne Sorenson:** I don't think the -- very modest -- I think we calculated 0.8 percent decline in the pipeline from quarter-end Q4 is a trend. We opened well in the first quarter. Always at the end of the year, we probably have a little bit more culling of the pipeline than we do at other times. And typically, Q1 will be the slowest signings quarter, part of that is because you've got to go through a reauthorization of franchise circulars in most states. All those things combined led to that modest negative in Q1. And we don't think we'll necessarily see that in the quarters ahead.

But having said that, we are -- we've said now for at least a couple of years that sort of steady-state organic growth, particularly in the United States, United States is flattish. We are, I think, continuing to take share, maybe even building a little bit of momentum. But in the 9th or 10th year of the recovery with cost increases in construction and labor and length of the construction cycle, even though financing is high and the absolute returns are quite good, I don't expect we'll see a meaningful ramp-up, for example, in development in the U.S. I think instead, we'll be sort of poking along at flat levels, substantial but flat levels. And growth quarter-over-quarter or year-over-year is going to depend a lot on what happens in the rest of the world.

**Jared Shojaian - Wolfe Research, LLC:** Thank you. Laura, congratulations to you, well deserved. And Arne, my best wishes to you for a quick recovery.

**Joseph Greff - JP Morgan Chase & Co.:** I was going to say good morning, but those were the old conference calls. Good afternoon. More seriously, Arne, we wish you the best. That's heartfelt. And Laura, congratulations. We will definitely miss you.

**Laura Paugh:** Thank you.

**Joseph Greff - JP Morgan Chase & Co.:** My question -- most of my questions have been answered, but the one question I have is regarding the development pipeline. What percentage of the pipeline is North America or U.S. top 25 markets full-service? And what percentage of that would be financed or under construction?

**Arne Sorenson:** We'll have to go back to you on this. I think about 40 percent of the global pipeline is luxury and upper upscale. So, it's a good, healthy mix, which is in the higher segments. I am certain that the percentage in the U.S. only, which is luxury and upper upscale, is meaningfully lower than that and that and U.S. may skew towards, for us, upscale principally, not upper mid-scale. We don't really have the upper mid-scale space. Am I close or you guys -- go ahead.

**Leeny Oberg:** In the pipeline, when we're looking at the full-service pipeline, it's about 10 percent of the overall 475,000.

**Arne Sorenson:** Of the global.

**Leeny Oberg:** Global pipeline. Of the North America pipeline, it's about 20 percent.

**Arne Sorenson:** And I don't think we can give you the top 25 versus other markets, with the information we've got here.

**Leeny Oberg:** Obviously full-service.

**David Beckel - Sanford C. Bernstein & Co.:** I'd also like to echo the sentiments and well wishes, Arne, and congrats, Laura, on a tremendous career. My question -- my first question has to do with RevPAR cadence. Given Q1 results, Q2 guidance, of course, there are some timing issues. But back half implies sort of a pretty healthy acceleration, particularly in the U.S. You talked a little bit about group strength, giving you some confidence that, that will materialize. But there -- are there any other onetime items to be aware of there with respect to the calendar? And more generally, what gives you the confidence that demand and RevPAR will sort of seemingly reaccelerate through the back half of the year?

**Arne Sorenson:** Yes. There's -- I mean I think there's one thing we can be probably annually blamed for, I suppose, and that is we often keep our range a full two points. And so obviously, we started the year at 1 to 3. We're still at 1 to 3 after the first quarter. And if we were actually comparably precise in each quarter as the year went along, we would narrow that range more and more because the more quarters you put in the book, the less likely it is that you're either going to hit the bottom or the top end of that. And I think that could be said here, too.

But maybe to get to the opposite fundamental point, our internal guess, if you were to take a sort of single-point RevPAR forecast is essentially right in the middle of that range. And so that tells you that basically when we're looking at transient bookings and group bookings and year-over-year comparability issues, the most obvious in the fourth quarter, of course, being the strikes, which we had to struggle through in the fourth quarter of 2018 but hopefully, will not in the fourth quarter of 2019, all of those things get us to a place where we think sort of the midpoint of that 1 to 3 is about the best prediction that we can make.

It does suggest that in part because of comparability issues and because of bookings, maybe we're a bit better in the last two quarters than in the first two quarters but not a dramatically different scenario, and it's not our sitting here saying we're going to have a different kind of economic environment than the one we have today.

**David Beckel - Sanford C. Bernstein & Co.:** Great. Thanks for the color there. And just a quick follow-up. I noticed that CapEx increased by about $100 million. Could you just give a little color as to why the increase?

**Leeny Oberg:** Sure. Basically, we're up in the midpoint about $100 million. And it is a combination of a little bit higher systems initiatives, which will actually be reimbursed over time from our owners, as well as a loan for a particularly valuable management agreement that's going to result in a meaningful property improvement program that will bring a hotel up to really fantastic brand standards for that brand.

**Smedes Rose - Citigroup Inc:** Arne, glad to hear that you're in good hands. And Laura, it's not going to be the same without you. I look forward to catching up offline with you.

I wanted to ask just -- you mentioned in your opening remarks a new design for TownePlace and Fairfield Inn, I think, targeted at smaller markets. So, I was just wondering, is that answering some sort of unfilled demand that your developers are asking you to do? Are you trying to be more competitive with the products that are already targeting those smaller markets? Or kind of maybe what's -- what does it mean for those, I guess, for the pipeline for those two products?

**Arne Sorenson:** I think it's actually both, but they're -- and in a sense they're the same issue. We have heard from a number of our franchisees that they want to expand in secondary and to some extent, even tertiary markets where a Fairfield or a TownePlace Suites at 80 or 90 rooms instead of at 125 or 130 rooms is the better positioning for those markets.

And while we've had the ability, of course, to shrink the number of rooms in a hotel, if you're not shrinking the public space in a way that's commensurate with that, you're probably putting a product that's a little bit overbuilt in that market.

And so, we want to do something with those partners who want to grow in those markets to make sure that we've got something which is true to the brand but cost-effective for them and competitive with the competing product that might be there. And obviously, you can see we've got a lot of different companies that participate in the select-service space particularly. And if you look at the tertiary markets, you'll see that we are probably less distributed there than many other companies in the United States.

**Smedes Rose - Citigroup Inc:** Okay. And then just listening to all the hotel REIT calls, Expedia -- or the new Expedia contract has come up. Some -- it sounds like more than just it's a little more nuanced than just sort of lowering the commissions, and it's more about more control over maybe the way the rooms are put into the OTA systems. Can you just provide maybe some just broad strokes of maybe just kind of the changes in the contract or how it works now versus...

**Arne Sorenson:** Yes. I think the -- I mean obviously, we are now -- I don't even know what round of new contract this is with Expedia, but we've been renegotiating these contracts for nearly 20 years, I suppose, something like that. And there is a similarity, to some extent, with each of them.

But I think on some level, we continue to look for cost effectiveness. We look for data transferability, the ability to understand who the customer is and have the systems understand who the customer is. We look at inventory control, which is, can we yield our inventory? Can we make sure we're pricing our inventory on our own platform in a way that doesn't necessarily have to be offered up in every other platform? And those things were on the table here, too.

And of course, you would expect Expedia or another OTA to want often the opposite of what we want, certainly as it relates to the level of the commission. That's probably the clearest to see. But I think we're grateful for where we got with Expedia. We do think it will deliver economic benefits to our owners.

We also think we are -- we don't have much to say about this today. You'll have to stay tuned, but we do have an idea with them, with Expedia that we think is attractive to both of us, maybe an incremental place for them to make some economics in our space but also a space in which they can actually deliver more cost-effective solution to us than some of the solutions that are available to us today. And so, we're pleased with the outcome that we've got and look forward to seeing what we can accomplish with it.

**Anthony Powell - Barclays Bank PLC:** Obviously, well wishes to you, Arne. Well wishes to you, Laura. Thanks for your help and openness over the years.

**Arne Sorenson:** Thank you.

**Anthony Powell - Barclays Bank PLC:** Yes. So, the house profit margin increased in North America on pretty modest -- RevPAR was a positive in the quarter. I think you targeted 50 basis points of hotel level margin growth from the merger. Are you beating that currently? Or do you think that could lead to upside to your incentive fee growth projection of 6 percent to 10 percent over the next few years?

**Leeny Oberg:** So, a couple of things. We basically have achieved, in every year since we've acquired Starwood, 50 basis points of -- at least 50 basis points of margin improvement apart from RevPAR in 2017, 2018, and it's our goal to do that again in 2019. And quite frankly, Anthony, it's our goal to do it again in 2020.

So I think whether it is from purchasing or from what we've seen in the loyalty programs to productivity synergies to above-property synergies through the PSF, we've been thrilled with what we've been able to do and quite frankly, with the hard work that the properties have put in to making it a reality. So, we do continue to see the benefit. And I think you're seeing that come forth in the incentive fees and in the profits of the hotels.

**Anthony Powell - Barclays Bank PLC:** Got it. So, I think in your Investor Day, you said 6 percent to 10 percent of growth over the next few years. Is that still the target? Or is there maybe upside to that?

**Leeny Oberg:** Yes. Yes. I think for now, using what you've got in the Security Analyst Meeting is just right.

**Anthony Powell - Barclays Bank PLC:** Got it. Okay. Just one more...

**Leeny Oberg:** We certainly hope to beat it.

**Anthony Powell - Barclays Bank PLC:** Got it. And just on the home rental business, is this more of an offering or amenity for your core customer? Or do you think this could really scale to something that's meaningful in terms of financials for you over the next few years?

**Arne Sorenson:** Well, time's going to tell. I mean we're taking a different strategy obviously than a number have. We are not -- we want to -- we know that what we offer in this space are brand we must stand behind, that nobody is going to excuse us from a bad experience in a home and villa rental kind of experience. They're not going to blame the host. They're going to say, "Marriott, you put me in a product that was not clean," or something else happened in that space. And so that's one thing that will make -- will have an impact on the size of business long term.

The second thing we're doing is we're really looking at the whole home market. We're not looking at studio apartments. We're not looking at extra bedrooms. We're looking at something which is meaningfully different from a traditional hotel room. For obvious reasons, we think it makes it more complementary to the hotel space that we're in. We also think it helps fill out a gap, if you will. One of the gaps that arguably we've had is that when larger families, whether that's a single nuclear family or an extended family, are traveling together, hotels are not necessarily always the easiest place to be because there may not be places for them to gather outside of the public spaces of the hotel.

And the more we can do something that solves both of those, the better off we think we are. I think though even defined that way, it is a big market and a market that we can grow in. We obviously don't expect that there will be a material financial impact in 2019. We wouldn't tell you to build anything into this model until we get smarter about it in the years ahead. But we're really excited about it, and we're really eager to learn what we can learn in this space.

**William Crow - Raymond James & Associates, Inc.:** And obviously, I share the sentiment that's already been said. And Laura, 20 years of trying to make me better. I appreciate your efforts. I'm not sure they worked, but I appreciate them.

**Laura Paugh:** Well, you're terrific.

**William Crow - Raymond James & Associates, Inc.:** Arne, my question is really on the select-service and limited-service space and whether you think the consumer today is more discerning in what they're looking for and whether that's put older properties at a significant disadvantage to newly opened properties.

**Arne Sorenson:** It's a good question, a good question for lots of reasons. I mean I think the full-service hotels have still got a very meaningful advantage. They've got function space. They've got a presence that a typical select-service hotel can't offer, often a food and beverage range that a select-service hotel can't offer. And they can continue to be I think quite competitive, particularly in the right kinds of markets.

I think at the same time, you see select brands, and we've got a number of these. I think about Moxy and AC and Aloft and Element, just to name a few that come right to mind, that are interesting. They are -- they can be lively. They can be with an energized bar space or lobby space or maybe even flex food and beverage space. And if they're in urban locations, they give a better alternative, I think, in some respects than the relatively lower-rated hotels that might have been in the same market in a past generation, if they existed there in the first place.

And so, we'll watch this altogether. Obviously, one reason these brands are growing so well is I think our franchise partners see them and say, "This is a pretty interesting new mousetrap, and we want to be part of experimenting to see how this works." I think ultimately, all these hotels can be successful in -- if they're positioned right and if they're true to their brands. I think some of the newer select brands have the ability to punch above their weight in terms of rate per square footage, which I think will make them stronger over time.

And ultimately, where the growth settles is going to depend a little bit on that return, and that return is both about current cash return for development costs, but it's also about capital preservation and what assets are going to hold their value the longest. And that's still often going to be urban Main and Main kinds of locations that may have delivered a little less percentage cash flow return but are going to hold their value extraordinarily well.

**Patrick Scholes - SunTrust Robinson Humphrey, Inc.:** Let me just also reiterate, Arne, hopes for a quick recovery, and Laura, congratulations. Well deserved.

**Laura Paugh:** Thank you.

**Patrick Scholes - SunTrust Robinson Humphrey, Inc.:** A question. You talked about occupancy taking a bit of a hit in the quarter on, I guess, less use of third-party OTAs. Is this something that we would expect to continue throughout the year? And then is it also fair to think that on the flip side, it certainly benefits owned hotels, including yours as well as IMFs?

**Arne Sorenson:** Yes. I mean I think we have seen probably some of this the last few quarters. We certainly -- in the Marriott, Legacy-Marriott portfolio, even before the integration of the reservations platforms, we had started to do some yielding of our inventory off of third-party sites when we predicted we didn't need that business.

And so, I suspect as we get further into the year, we will see some lapping of what we did in the past. I think what has accelerated probably a bit is with going to one reservations platform is we've brought the Starwood Hotels in sort of one fell swoop onto a little bit more aggressive approach that way. And so, we think we'll probably see some impact of that.

We're going to watch this. I mean obviously, we don't want to turn away business if it's incremental to us. What we want to do though is make sure we're set up to maximize profitability of hotels long term. And while we talked about this before, while RevPAR is the single measure which is most available in the industry, it is not the measure which is the most important, which is what kind of profits are you driving from the performance of that hotel as you compete for owner capital. And as we've said before, we're quite prepared to sacrifice a few tenths on the top line it if makes sense to drive enhanced profitability on the bottom line.

**Leeny Oberg:** The only additional add to that is that I would not expect it -- to the second part of your question, I would not expect it to materially impact the owned, leased profits.

**Robin Farley - UBS Investment Bank:** I want to add my best wishes for Arne. And Laura, quite selfishly, I am bummed that Laura is leaving because as many years as I've been doing this, I always learn something when I talk to Laura. So, I think for all of us, our understanding of the industry's going to be diminished by you going. But don't let that stop you. I know you well deserve it. So...

**Arne Sorenson:** We feel exactly the same, Robin.

**Leeny Oberg:** Exactly.

**Robin Farley - UBS Investment Bank:** So, my question is on incentive management fees. I wonder if you could give us -- sometimes you give color on kind of what percent of hotels are paying versus the previous peak kind of in North America. And then also just with the guidance for management -- the incentive management fee declines in Q2. You mentioned it's renovations. It seems like something that renovation disruption might be more than a one-quarter phenomenon, but your full year guidance is still for that up mid-single digit for the incentive management fees. So, I wonder if you could just talk to us about how -- like what's the sort of specific to Q2 but not necessarily an issue in later quarters about that?

**Leeny Oberg:** Sure. Absolutely. So, let's first talk about percentage ownership on incentive fees. And in Q1, in 2019 versus 2018, it was up 300 basis points, so 56 percent versus 53 percent a year ago first quarter, so fits nicely with the discussion that we've been having relative to margins and also international hotel growth. Relative to the full year, last year, 2018 was up about a point over 2017. It's too soon for us to kind of get into percentages for all of 2019, but I think clearly, the trend is moving in the right direction.

So, a couple things I'll mention on incentive fees in Q2. One of the things that's going on in Q2 in incentive fees is FX. We have expected that FX, albeit it's a little bit less bad than we expected a quarter ago -- a quarter ago, we said $15 million to $20 million. Now we got closer to $10 million. We do expect that FX impact, negative FX impact, which clearly hits incentive fees, to be largely in the first half. So, we are expecting a chunk of that to be in Q2. And then you add onto that the reality that in Q1, we had a bunch of resorts that were getting this extra strong incentive fees and then layer on top of it the renovations and Easter. And that's where you get this overall change in the direction of the incentive fees in Q2.

**Thomas Allen - Morgan Stanley:** And best wishes on a speedy recovery, Arne. And Laura, good luck in your retirement.

**Laura Paugh:** Thank you, Thomas.

**Arne Sorenson:** Thank you.

**Thomas Allen - Morgan Stanley:** So, at the beginning, in your prepared remarks, you talked about 2½ years of embedded growth just in the hotels and construction and then another

2½ years in the pipeline. Is that saying -- for the kind of 5.5 percent to 6 percent growth you're guiding, is that what you're implying?

**Arne Sorenson:** Yes. I guess so. Yes. I don't know that we exactly went back and tested the net unit growth number. And obviously the 5.5 percent is net of deletions. We're not updating the deletions forecast. But really simply looking at -- you look at the volume of rooms in that pipeline, and it looks about 5 years' worth of growth to us.

**Laura Paugh:** And it's assuming just a steady pace of openings. So, it -- just at today's pace, you've got a lot of stuff in the pipeline.

**Leeny Oberg:** It's consistent with what we talked about in the Security Analyst Meeting, which obviously, you'd expect higher room openings in 2021 than you would expect in 2019. But it is all consistent with this pipeline, be it 478,000 or 475,000.

**Thomas Allen - Morgan Stanley:** Okay. Perfect. And then just -- since you announced Homes & Villas, what have you heard from owners?

**Arne Sorenson:** They're curious, of course. They're deeply interested in where we're going with this. Obviously, 2,000 Homes & Villas is a substantial increase from what we were doing last year, but it is not a significant number by itself when you compare it to the -- either the size of the hotel system we have today or even the number of hotels we open every week. And so, it's less a question really about what are we doing today than what might we be doing in the future.

And I think as we go forward, we're going to make sure we're communicating with them and taking onboard their interests. I think our owners are not monolithic. So, it would be wrong to say that every one of them has exactly the same point of view. I do think there are many of them that acknowledge that this is a rational step for us to take. And if they were in our shoes, they'd be doing exactly the same thing.

I think broadly, they appreciate the value of the loyalty program and know that this can enhance the loyalty program, which is a benefit, not just of the Homes & Villas business, but it's also to the benefit of the hotel business. And I think owners generally have a point of view which is they'd like to grow with us but maybe have nobody else grow with us, so that they could make sure they capture as much of our customer base as they possibly can. I think they understand philosophically that, that's not a world that they can necessarily have.

But you put all that through the grinder, and I think we've got a very constructive set of conversations with our owners, and I'm sure we'll be able to navigate this through with them well.

**Michael Bellisario - Robert W. Baird & Co.:** All the best to both of you, Arne and Laura.

**Laura Paugh:** Thank you.

**Michael Bellisario - Robert W. Baird & Co.:** You gave us a 3 percent number. I think it's on the transient side for your largest accounts. I mean did you see any different trend with some of your smaller accounts? And any differences between kind of larger and smaller customers in terms of the booking behavior that you saw?

**Leeny Oberg:** Yes. I wouldn't say anything kind of notable. Happily, some of our biggest customers, like the professional services areas and things like that, they were good -- they were up meaningfully, so some of the areas that you would expect. So, I don't think there are any particular trends of the larger versus the smaller. But certainly, professional service as an example was up very strong.

**Michael Bellisario - Robert W. Baird & Co.:** And then you mentioned I think you called it a surge in group bookings in April. What was the kind of profile of that customer that was being more aggressive with their forward-looking bookings?

**Leeny Oberg:** Well, there -- actually, that was group that we were talking about. That was group bookings which obviously can cover a range, everything from associations to government to corporations, and it was quite strong in the corporates. What -- I think one of the things that we were very pleased to see is that it was -- the surge was both in the year, for the year as well as for all future periods, which was always very encouraging.

**Kevin Kopelman - Cowen and Company, LLC:** And first of all, best wishes to you, Arne, and congrats to Laura.

**Arne Sorenson:** Thanks, Kevin.

**Laura Paugh:** Thanks, Kevin.

**Kevin Kopelman - Cowen and Company, LLC:** I just had a quick one. Can you talk about free cash flow trends that you're seeing and that kind of onetime payment that you had in the first quarter and how you're expecting free cash flow to trend for the year?

**Leeny Oberg:** For the onetime payment you're referencing, you're talking about insurance costs related to --

**Laura Paugh:** …profit sharing last year?

**Leeny Oberg:** Yes. Profit -- that was profit sharing within the year ago first quarter. So, in that respect, we were talking about kind of year-over-year trends in G&A because obviously, last year was weighted down by the $35 million. You could be talking about the profit sharing from our working capital changes, the...

**Kevin Kopelman - Cowen and Company, LLC:** Sorry, I'm talking about the outflow for accrued payroll and benefits.

**Leeny Oberg:** Yes. Yes.

**Kevin Kopelman - Cowen and Company, LLC:** Year-over-year, yes.

**Leeny Oberg:** Yes. And that is just a function of the fact that, as you remember, we accrued for this supplemental benefit last year. But we actually paid it out in first quarter into our associates' accounts. And then second of all, we also moved up our profit-sharing timing from Q3 to Q1. So, when you look at the working capital use of cash in Q1 relative to normal, it looks particularly heavy, and that's because of about $200 million worth of timing differences in the cash flow.

**Kevin Kopelman - Cowen and Company, LLC:** Got it. And then just a follow-up. Typically, your loyalty program has been a source of cash, and you talked about how it might be different this year. And you did have strong, I think, redemptions in the first quarter. So, any change to the outlook there for this year?

**Leeny Oberg:** Yes. So good question. And again, to your -- kind of to finish off the rest of your earlier question. Otherwise, in terms of the overall flow of cash, it's really the same as we expressed in the fourth quarter. So, no fundamental change. We obviously haven't assumed any asset sales. So, it's pretty similar.

Yes. I would say loyalty might be between $50 million and $100 million negative use of cash this year as compared to more neutral where we were a quarter ago. But that's also offset by a little bit higher net income. So, you put that all together with maybe ever so slightly higher debt borrowings and we end up in exactly the same place. And all of those, I would say, are in the $50 million to $75 million, so really kind of fine-tuning more than any fundamental change.

**Wesley Golladay - RBC Capital Markets:** I've just got a quick question on conversions. Now that Bonvoy has been launched, the programs have been integrated, are you seeing increased interest from owners to convert to Marriott brands?

**Arne Sorenson:** I think it's certainly at least steady, if not up a bit, yes. The -- I think the demand both for new build and for conversions is comparable. I think the feedback we're getting from our owners is very positive. I think there have been questions already obviously about margins, which we've talked about. I think there is not -- maybe not unanimous but broad recognition that we're delivering incremental margin performance because of what we've built here. And I think there is broad understanding that the revenue lift should come behind it and not only an absolute revenue lift but a mix of revenue sources, which is more cost-effective. And so, the level of conversations we're having with our current and prospective partners are very robust.

**Leeny Oberg:** And in certain markets that are more RevPAR-challenged like Middle East, for example, we're very encouraged with some of the conversion activity we see going on there, where the benefits of the strong revenue pipeline of our brands is viewed as very attractive, as well as the margin.

**Wesley Golladay - RBC Capital Markets:** Can I get one more question? I want to look at the limited-service. The underperformance this quarter was a little bit more pronounced. And I assume some of that was related to the relief efforts last year. Is that true? And how do you expect the gap between full-service to trend throughout the year?

**Arne Sorenson:** Yes. It's a good question. The -- I think the limited-service is partly geographic distribution maybe a little bit for us, partly age of product, I suppose maybe for Courtyard, which we're working on. But I don't see a dramatic difference in performance between the segments as the year goes along.

**Wesley Golladay - RBC Capital Markets:** Best wishes and thanks for everything.

**Arne Sorenson:** Thank you.

**Laura Paugh:** Thank you.

**Vince Ciepiel - Cleveland Research Company:** Great, and best wishes to both Arne and Laura. I had two questions and they're both related to share of wallet, one pertaining to the Starwood-Marriott deal and the second on home sharing. So first, on Starwood-Marriott, you obviously have this base of Legacy-Marriott loyalty members, Starwood loyalty members. And I'm curious, kind of what inning you think we're in of increasing share of wallet within those bases of legacy members? What type of overlap you're seeing of the Legacy-Marriott staying now at Starwood properties and vice versa? I guess maybe a simple way of capturing it is, I think you've noted loyalty is 50 percent of the business now. How high do you think that could get?

**Arne Sorenson:** Well, I'm not sure we actually know the answer to the second one. A couple of comments on absolute penetration of loyalty and then maybe finish with what inning we're in. It was interesting to us that when we acquired Starwood and looked at the way the calculation was done for loyalty contribution of the hotels, Starwood was 7 or 8 points higher than Marriott was principally because the calculation was done differently. And we have synthesized those calculations now, so that they're the same. And actually, the loyalty contribution of the Starwood Hotels looks a whole lot more like what it does for the Marriott Hotels.

And there's some arcane things in there about whether you count, for example, a points ineligible room that came in through an OTA channel but has a loyalty number attached it where maybe they could earn points from food and beverage or you don't and we don't. So, there are a bunch of things that go into that calculation.

As we said, we're at -- about 50 percent of all of our rooms are coming from our loyalty programs. We think that number will grow. We are, I think, in a very early inning. While our customers were, both Starwood and Marriott customers, I think were pleased when we allowed linkage of the loyalty programs on the day of close. To now have one single program means they don't have to go to two separate sites, if you will, to see what the options are in the other legacy portfolio.

And that means the customers are, just in the last few months now, for the first time, going on and looking at whatever destination they may be going to and seeing a meaningfully broader selection to choose from than they did before. And it means that we are seeing folks who might have driven farther for that SPG hotel or driven farther for that Marriott Rewards hotel before, now having options that are a little bit closer to them. And there'll be some in -- there'll be some trading sort of back and forth in both directions, which I think net-net, should drive share of wallet and maybe not disproportionately impact either one.

We did put in our prepared remarks that redemption volume has gone up significantly. I think that is a powerful sign that people are seeing the value of the choices that are available. And so, it’s hard to put an inning on it, but I would say it's very early in the game in terms of revenue lift and the lift available from the Bonvoy program.

Okay. I guess the operator told us you were last. Thank you very much for being so patient with us. We obviously try and do these things in the morning for obvious reasons. We had our Board meeting and shareholders' meeting this morning, and we're trying to fit an awful lot in, in the same day. And so, thanks for waiting until Friday afternoon for us. We appreciate your interest in us. Congratulations, Laura, once again. We'll have you for...

**Laura Paugh:** Thank you.

**Arne Sorenson:** Another few quarters here, but...

**Laura Paugh:** And Happy Mother's Day to everybody.

**Arne Sorenson:** Happy Mother's Day, everybody.

**Leeny Oberg:** Have a great weekend.

**Arne Sorenson:** Make sure you take your mothers or your spouses or whoever is mother-like to you to one of our hotels and celebrate. Have a good weekend.

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and uncertainties, including those we identify below and other risk factors that we identify in our most recent quarterly report on Form 10-Q or annual report on Form 10-K. Risks that could affect forward-looking statements in this document include changes in market conditions; changes in global and regional economies; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; the extent to which we experience adverse effects from the data security incident; changes in tax laws in countries in which we earn significant income, including guidance that may be issued by U.S. standard-setting bodies on how provisions of the Tax Act will be applied or otherwise administered; and changes to our estimates of the impact of the new accounting standards. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of May 10, 2019. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.