



**Marriott International, Inc.**  
**Second Quarter 2017**  
**Earnings Conference Call Transcript<sup>1</sup>**  
**August 7, 2017**

**Operator:** Welcome to the Marriott International second quarter 2017 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:** Welcome to our second quarter 2017 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.

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 today, along with our comments, are effective only today and will not be updated as actual events unfold.

In our discussion today, we will talk about results excluding merger-related costs and we'll compare 2017 results to prior year combined results which assume Marriott's acquisition of Starwood and Starwood's sale of its timeshare business were completed on January 1, 2015. Of course, comparisons to our prior year reported results are in today's press release, which you can find, along with a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at [www.marriott.com/investor](http://www.marriott.com/investor). So, let's get started.

We appreciate you joining us at this late hour... travel schedules made it difficult to hold this call at our normal 10 am time slot. In fact, today, we are here in Shanghai, at the new, stunning W hotel, having just announced an exciting joint venture agreement with Alibaba.

Larger than Amazon in terms of active users, Alibaba has over 500 million active users on their e-commerce platform, giving them tremendous reach to Chinese consumers. Alibaba's online shopping platform, known as Taobao or T-mall, makes products available through general sites and "storefronts" that list the products or services for sale by category and brand. The T-mall travel site, called Fliggy, hosts over 10,000 travel merchants, offering everything from hotels and visa applications to airline services and vacation packages. We are impressed by the power of the Alibaba platform. Through a targeted marketing program late last year with Alibaba, we signed up 600,000 new Marriott loyalty members in just eight weeks.

---

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

Drawing on resources from both Marriott and Alibaba, the joint venture will create a new Marriott booking portal on Fliggy with enhanced functionality, enabling Marriott to benefit from the broad reach and efficiency of Alibaba's digital Chinese language platform. The joint venture will manage Marriott's storefront; market directly to Alibaba's customer base; leverage Alibaba's IT and marketing infrastructure; and provide a link between Marriott's loyalty programs and Alibaba's loyalty program. The Marriott storefront on Fliggy will offer Marriott member rates and the opportunity to earn loyalty points for Marriott Rewards, Ritz-Carlton Rewards, and SPG members.

The joint venture should enhance our service for Chinese guests when they arrive on property by enabling Alibaba's digital payment system, Alipay, at key properties worldwide across our portfolio. We also expect to broaden our offerings of guest amenities and services appealing to Chinese travelers to more hotels.

We believe this relationship with Alibaba will enhance the appeal of our products to Chinese guests, further increase Chinese membership in Marriott Rewards, Ritz-Carlton Rewards and SPG, and make travel easier. With the joint venture, hotel owners should see both an increase in bookings from Chinese travelers, as well as a lower cost for these reservations.

Five years ago, we held our Security Analyst Meeting here in China and talked about the tremendous opportunities this country offers. At that time, we noted that China was the third largest source market for outbound travel behind the U.S. and Germany. Today, China is the largest source market for outbound travel. At Davos this year, Chinese President Xi Jinping forecasted that Chinese tourists will make 700 million overseas visits in the coming five years.

Not only large and growing, Chinese outbound travel is also maturing. Visa processes have improved at many major destinations to facilitate travel and most outbound Chinese travelers are now traveling on their own rather than in a tour group. Fliggy and Marriott will help these travelers find products that are tailored to their interests and offer a seamless travel experience.

We've opened a dozen hotels in China year-to-date and, today, we have over 500 hotels and 170,000 hotel rooms open or under development in China. In fact, today, China represents 8 percent of our worldwide rooms and 17 percent of our worldwide rooms pipeline. Here in Shanghai alone, we already have 52 hotels open or in the pipeline. As we've grown our presence outside North America, we have increasingly tailored our hotel designs and service offerings to local consumers and owners and embraced technology to enhance the guest experience. This joint venture will further both of these goals by dramatically enhancing our online presence and linking it more closely with the Marriott on-property experience, in Chinese, for the Chinese traveler.

While we are here in China to announce the joint venture with Alibaba, we are with you today to talk about earnings.

Results in the second quarter were very strong here in the Asia Pacific region. Constant dollar systemwide RevPAR rose nearly 7 percent, exceeding our expectations. Comparable hotel RevPAR in Greater China increased more than 8 percent driven by broad-based strong performance across

Mainland China, particularly in cities such as Tianjin, Guangzhou, Sanya, Shenzhen, and many markets throughout western China. Food and beverage revenue in China increased 3 percent. In the second quarter, China represented roughly 6 percent of our worldwide fees.

RevPAR in India increased 10 percent with solid domestic and international demand while Japan's RevPAR rose 5 percent, benefiting from strong leisure travel during the Cherry Blossom season. We expect third and fourth quarter RevPAR in the Asia Pacific region to increase at a mid-single-digit rate with some upside potential.

Now over to Europe... our Europe hotels are benefiting from improving economic growth and greater U.S. demand driven by the stronger dollar. As a result, Europe's RevPAR rose 7 percent on strong transient performance in the second quarter. Constant dollar systemwide RevPAR in the U.K. increased 8 percent with London up 12 percent. RevPAR in Spain also increased 12 percent as the economy has rebounded and U.S. demand has increased. RevPAR in Europe exceeded our expectations as many markets bounced back from recent terrorism events faster than expected. For the third and fourth quarters, we expect RevPAR in Europe to increase at a mid-single-digit rate, also with upside potential.

Systemwide constant dollar RevPAR in the Caribbean and Latin America increased 4 percent, with continued strength in Mexico, which was up 10 percent. Our resorts in the Caribbean increased RevPAR modestly as travelers returned to the region for the Easter holiday and Zika concerns continued to abate. RevPAR in South America declined 2 percent on weak economic trends. For the third and fourth quarter, we expect RevPAR in the CALA region will increase at a low single-digit rate constrained by weakness in the Brazilian economy and tough comparisons to last year's Olympics.

RevPAR rose 2 percent in the Middle East and Africa reflecting strong results in South Africa, but flat RevPAR growth in the Middle East. Sanctions on Qatar have reduced travel into and out of that country. Weak oil prices and lower government spending in several countries in the Middle East have also contributed to a bearish travel sentiment in the region. We are modeling a low-single-digit RevPAR decline in MEA in the third and fourth quarters.

In North America, first quarter systemwide comparable hotel RevPAR increased 3.1 percent. In the second quarter, RevPAR rose 0.9 percent on strong leisure demand, in line with our expectations. Our RevPAR guidance for the third quarter is "flattish" and we expect the fourth quarter will be up 1 to 3 percent. While these growth rates seem to vary considerably, they are less volatile than they appear.

Excluding the impact of the Washington inauguration in January and the shifting Easter holidays, we estimate RevPAR in both first and second quarter increased roughly 1 to 2 percent. And excluding the impact of the shifting Jewish holidays and the DNC and RNC conventions last year, we believe RevPAR in both the third and fourth quarter will also increase 1 to 2 percent. We would characterize this guidance as "steady as she goes".

With this steady outlook for North America, we expect worldwide RevPAR will increase 1 to 2 percent in the third quarter and 1 to 3 percent for the fourth quarter and full year 2017.

Our development organization continues to fire on all cylinders. We expect to grow our systemwide rooms by 6 percent, net this year. Our pipeline reached a record 440,000 rooms this quarter, which implies embedded growth of 36 percent of our current system size. In the second quarter alone, we added 36,000 signed or approved rooms to the pipeline. One-third of these new room signings and approvals were Legacy-Starwood brands and 55 percent were outside North America.

Today, we have the largest share of luxury hotels in the world with 426 luxury properties and 113,000 luxury rooms worldwide. Upon completion, our pipeline of luxury hotels should add another 200 hotels and nearly 50,000 rooms. That is over 40 percent growth implicit in the pipeline.

Our brands are strong and continue to be preferred by developers and lenders alike. Based on STR industry pipeline data, 1 in 3 hotels under construction in the U.S. will fly one of our flags. And worldwide, one in 4 hotels currently under construction will open under one of our brands.

We are very optimistic about the long term. RevPAR is increasing in most markets around the world and our impressive rooms growth will continue to build economic scale and consumer preference for our brands. Our integration of Starwood is on track. While there is much yet to do, guest and owner feedback has been positive. I've said it before, but it bears repeating. I'm incredibly proud of the many people working on this integration and they have my sincere thanks. We relish the opportunity to demonstrate to guests, owners and you what we can accomplish with all 30 of our terrific brands.

Now, for more about the quarter, here is our CFO, Leeny Oberg.

**Leeny Oberg:** Thank you, Arne. For the second quarter of 2017, adjusted diluted earnings per share totaled \$1.13, 12 cents ahead of the midpoint of our guidance of \$0.99 to \$1.03. Fee revenue contributed 4 cents of the outperformance, with about 2 cents due to better than expected property performance driving incentive fees and 2 cents due to better than expected relicensing and branding fees. Results of our owned, leased and other line outperformed by 2 cents largely due to a business interruption settlement, termination fees, and better overall results. Depreciation and amortization was about 2 cents unfavorable to our expectations due to fine tuning of purchase accounting associated with the acquisition. We expect to finish purchase accounting adjustments affecting D&A in the third quarter. On the gain line, we recognized about 4 cents associated with the sale of the Charlotte City Center Marriott. Finally, taxes were about 4 cents favorable to expectations reflecting a favorable tax settlement and greater tax benefits related to stock compensation.

Compared to the prior year, total fee revenue totaled \$849 million, 8 percent over prior year combined amounts.

Base fees increased 1 percent driven by unit growth and RevPAR improvement, offset somewhat by negative foreign exchange impact.

Franchise fees increased 12 percent in the quarter, reflecting a 7 percent increase in franchise rooms year-over-year and growth in non-property fees. These non-property fees include application fees, relicensing fees, and fees from our timeshare, credit card, and residential businesses, which together totaled over \$105 million in the quarter, 23 percent higher than combined results in the prior year. Relicensing and branding fees were particularly strong.

Incentive fees increased 9 percent year-over-year largely due to strong managed full-service hotel RevPAR in Europe and Asia, solid RevPAR improvement among managed hotels in North America, and good margin performance around the world. Global house profit margins at company-operated hotels improved 50 basis points during the quarter. While most of the improved margins were associated with RevPAR improvements in international markets, hotels also benefited from synergies associated with the Starwood acquisition, including OTA and procurement savings, revenue management improvements, benchmarking initiatives, savings on maintenance agreements, insurance savings, and lower loyalty costs. These property synergy savings could further improve in 2018.

Global incentive fees exceeded our expectations by \$10 million in the quarter, largely due to better than expected managed hotel performance in North America, Europe and Asia.

For the third quarter, we expect total fees will increase 5 to 7 percent on strong unit growth with flattish incentive fees. For the full year, we continue to believe incentive fees will increase at a mid-single-digit rate.

Owned, leased, and other revenue, net of expenses, totaled \$102 million in the second quarter compared to \$115 million in the prior year. We saw stronger year-over-year operating performance from hotels in Anaheim, Hawaii, Tokyo, and Toronto, as well as a business interruption settlement. Profits in the 2016 second quarter included \$18 million from seven hotels that have since been sold.

Owned, leased, and other revenue, net of expenses was \$12 million better than expected due to the \$5 million business interruption settlement, higher than expected termination fees, and better than expected results.

In the third quarter, we expect owned, leased and other revenue, net of expenses, will total roughly \$75 million compared to \$116 million in the prior year. Our owned hotels in Rio have a particularly tough year-over-year comparison for the third quarter given last year's Olympics. Profits in the 2016 third quarter included \$15 million from hotels that have since been sold. Our guidance for owned and leased hotels assumes no further asset sales this year.

For the full year, we expect net owned/leased results will total approximately \$355 million compared to \$426 million in 2016. The full year comparison to last year's combined results includes \$45 million negative impact from asset sales completed since the beginning of 2016, as well as lower hotel results in Rio and New York, and fewer termination fees.

Adjusted general and administrative expenses totaled \$226 million, a \$21 million decline from the prior year, reflecting continued cost reductions as the integration continues.

We expect G&A will total \$215 to \$220 million in the third quarter and \$880 to \$890 million for the full year, consistent with prior guidance. We continue to expect to achieve our annualized \$250 million in cost synergies by the second half of 2018, including achieving over \$200 million in savings in 2017.

In the second quarter, adjusted EBITDA increased 8 percent over combined adjusted EBITDA in the prior year. Adjusted EBITDA in the second quarter of 2016 included \$18 million from owned assets that have since been sold. We expect adjusted EBITDA will total \$770 to \$790 million in the third quarter of 2017. The third quarter of 2016 included \$15 million in EBITDA related to assets that have since been sold. For the full year, we expect adjusted EBITDA to total \$3.131 to \$3.201 billion. Full year comparisons to last year's adjusted EBITDA includes roughly \$40 million negative impact from sold hotels, including lower profits on the owned/leased line and higher related results on the fee line.

Adjusted diluted EPS in 2017 should total \$4.06 to \$4.18, an increase of 23 to 27 percent over prior year combined results.

2017 investment spending could total \$500 to \$700 million, including about \$175 million in maintenance spending. This includes the very modest amount we are investing for a minority interest in the joint venture that we announced today. We have already recycled roughly \$800 million of assets since closing the Starwood acquisition, including the sale of the Charlotte Marriott City Center for roughly \$170 million and receipt of a \$60 million loan repayment last week, and we anticipate recycling another \$700 million by year-end 2018, although no assets sales beyond those completed are included in our earnings or share repurchase guidance.

With our success in asset recycling, we have returned considerable sums to shareholders. Since the closing of the Starwood acquisition, we've returned over \$2.2 billion to shareholders through dividends and share repurchases. Through last week, we've repurchased nearly 16 million shares for approximately \$1.5 billion thus far this year. Excluding the impact of future asset sales, we anticipate returning over \$2.5 billion to shareholders through share repurchases and dividends for the full year 2017. This is higher than our expectations from six months ago due to stronger than expected EBITDA and asset sales.

We appreciate your interest in Marriott and we know the hour is late. So, we will limit the call to one hour, but Laura and Betsy will be available to take your questions afterwards. They are here in Shanghai, so send an email and they'll call you back. So that we can speak to as many of you as

possible on today's call, we ask that you limit yourself to one question and one follow up. We'll take your questions now.

### **Question & Answer Session:**

**Robin Farley - UBS Securities:** Great. Thanks. I don't know if it's a – this is something you've looked at, but can you tell what merger savings for the hotel owners ended up adding to your incentive management fees? In other words, where you would have just gotten some percent of that?

**Leeny Oberg:** Well, so a couple things. I would say we are very pleased with the margin performance. And in North America, in particular, given the RevPAR environment, I would say the margin performance is terrific.

We talked about shooting for something like 50 basis points in margin to get that as quickly as we can, and we see through what we've done so far that we are approaching that for this year. And from that standpoint, that would give us a little bit more on the incentive fee line, but I would say it's probably in the low-single-digits material, and not material, but low-single-digit millions on IMF.

**Robin Farley - UBS Securities:** Okay. Great. And maybe just one quick follow-up on fees. You called out branding and relicensing fees as being particularly strong in the quarter, and I think you raised the full-year by that amount. But was that just a timing issue? In other words, why only higher in Q2 for those things? Because I would think your branding fees would be more consistent, maybe, and would have added to the next two quarters, as well?

**Leeny Oberg:** So, a couple things there. First of all, we've kind of got two things going on in the branding fees. One is residential and one is related to credit cards. On the credit cards, hard to predict exactly, but they do seem to be doing well so far. But on residential, they are tied to the sales of residential real estate and, frankly, they are fairly lumpy during the year, where they can be up or down \$10 million just based on the quarterly progression of where these sales come. So, some of this is timing related, but as we look through the year, we basically took it and rolled it forward to the rest of the year.

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

**Harry Curtis - Nomura Instinet:** Hi, I've got a, just a housekeeping item. Do you have the ending share count – diluted share count at the end of the second quarter?

**Arne Sorenson:** Yes, we do. Hang on a second

**Leeny Oberg:** Yes, we do. I have it for you. 374 million shares outstanding, and on diluted, approximate basis would be 380.2 million.

**Harry Curtis - Nomura Instinet:** Okay. Very good. And then bigger picture question is, getting back to the U.S., we've got somewhat historic highs in occupancies and positive earnings trends at the corporate level, which should combine for a positive pricing environment. And so, I'm wondering, as you think about the next 18 months, are we seeing just the typical EPS growth lag leading to stronger RevPAR, or is there something else holding corporate travel budgets back?

**Arne Sorenson:** Yeah, it's a good question, Harry, and something we talk about quite a bit. I think there are a few factors going on here. I think GDP probably is still a better reference point for assessing demand than corporate profits are. Obviously, they're both averages of lots of economic activity and lots of participants in the economy. But GDP is a broader measure. Obviously, GDP has been quite anemic. The numbers that have been reported initially for the second quarter feel a little bit better at 2.6 percent. And if they really are meaningfully better, that will ultimately show up in demand. But GDP has been fairly anemic.

Second, I think, is that the occupancy, you look at the quarter numbers are fabulous. Systemwide across North America, we're nearly 80 percent for the full quarter, which is a pretty impressive kind of number. And so, you would expect a little bit more pricing movement. But, I think underneath that, you've got relatively more strength in leisure, which is more price-sensitive than the corporate business is. And I think one of the things we need to keep in mind is, while there are a few iconic companies in the lodging space, it sometimes looks like the industry is fairly concentrated, you've got to remember that we have thousands of franchisees who are pricing their own hotels on a day-to-day basis. And it is a market with radical transparency in pricing. And that may have some impact on our ability to move rates in this cycle compared to prior cycles.

**Harry Curtis - Nomura Instinet:** Okay. That's very helpful. Thank you.

**Felicia Hendrix - Barclays Capital:** Hi, good morning. You all sound very perky for the hour. Impressed.

**Arne Sorenson:** We're perky. Yep

**Felicia Hendrix - Barclays Capital:** So, I'm going to start out with kind of staying on this bigger picture topic and your last answer was helpful. But, I'm also wondering if you're seeing any significant differences in corporate travel spend from different industry sub-sectors. Within your largest corporate customers, could we be seeing just weaker corporate travel because industries like retail, oil, gas, and finance simply aren't going to be generating as much travel as they used to?

**Arne Sorenson:** I think that's a perceptive question. In fact, all of these averages hide underneath them pluses and minuses that vary dramatically from company-to-company and industry-to-industry. And, obviously, there are industries like oil and gas, the energy environment, which are much tougher than others. But even if you go to the technology space, for example, technology ranges from companies that have existed for many, many decades to companies that are just a few years old.



And when you look across that segment, you'll see that there are companies in there that are being very cautious about travel and very cautious about managing expenses, and others which seem to be spending as if they're having a great party. And that pops up in different ways in different markets. But, I think generally, it leads to a sort of anemic corporate transient business. Special corporate, which tends to be the bigger accounts, is weaker than sort of what we would call corporate rack rate transient. But even if you look at that and you're not talking about being up a point or so in the second quarter.

**Felicia Hendrix - Barclays Capital:** Okay. Thank you. And just as a follow-up, a little more specific, I'm just wondering if we could touch for a moment on the individual property performance. So, luxury and upper upscale, for you guys, performed mostly in line with the STR Chain Scale data. But, peeling back and you're looking at different brands, the W brand seems to continue to underperform, but Marriott did, Courtyard also has been kind of underperforming for a few quarters. So, I was just – can you walk us through that? Maybe some of it has to do with business, but travel, but just wondering generally what's happening there?

**Arne Sorenson:** Well, you've got to remember – start with the notion that STR industry numbers are being reported as all hotels, not just comp hotels. And so, you're getting new hotels that are just ramping that would not be in our comp numbers. We really are in the second year of performance where we've got true comparisons before we start to report comp. And that singularly is the biggest difference between STR's numbers and the numbers that we would report. We talked about this many times, but the core information to look at is RevPAR Index, and that's how do our hotels perform against the hotels they compete in market-by-market. And there we're performing quite well with modest increases in RevPAR Index in North America, and in other parts of the world, more significant Index, but we're really doing well.

When you look at individual brands or individual markets, you mentioned W, for example, W is, I don't remember the number of open comp hotels in the United States, but it can't be much more than 25 or so, maybe even a little bit less than that. So, it's going to depend on our renovation in the hotel, it's going to depend on maybe a piece of group business, something else. And it's hard to generalize from that kind of small portfolio anything about performance. We're in this brand-new W Hotel in Shanghai, opened five weeks ago. And when we look around the world, we see a pipeline and a portfolio of hotels in the W brand that is extraordinarily exciting. So, the brand is actually doing spectacularly well.

**Felicia Hendrix - Barclays Capital:** And on the Marriott and Courtyard side, is it also just anomalies there?

**Arne Sorenson:** That would be our true comparisons as opposed to all hotels in the market. Brands are doing fine.

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

**Arne Sorenson:** But, again, it's going to depend a little bit on the dynamics. So, in the second quarter, you've got – and this will be an impact in the third quarter, too. Marriott skews a little bit more towards group than the industry as a whole. And so, in quarters, where group is weaker, we're likely to see a little bit more modest performance of that brand, and in quarters where group is stronger, just the opposite.

**Felicia Hendrix - Barclays Capital:** Okay. Thank you.

**Stephen Grambling - Goldman Sachs & Co.:** Thanks for taking the questions. You mentioned the \$700 million of asset sales through 2018 that are still coming. Can you just remind us what properties are still being shopped, and how the market for these types of assets has evolved since the acquisition?

**Leeny Oberg:** Sure. Good afternoon, Stephen. So, we've still got about 18 hotels that in some way, shape or form over time we'd love to recycle, and 12 of those are Legacy-Starwood. And if you think about where they are, you're talking kind of broadly in the Americas. So, 10 of them are in the Americas, 4 of them being in CALA and 6 in North America, including 3 in Canada, and then two in Asia Pacific. And as we've talked about before, it's not purely the market that you're selling into, it's also a combination of things about whether there's a ground lease, whether there are other zoning things going on related to a certain hotel. And so, from that standpoint, we continue to click along through selling the ones that, frankly, have absolutely no – nothing that needs to be worked out. And then some things that we need to continue to work through several issues related to the possible sale.

But, we continue to feel good about the markets that we're selling into, with the exception of ones like a Rio, for example, where we do have to consider whether it makes sense to perhaps hold on to them for a little while until things improve. But, I think overall, we continue to feel good about the ability to sell these hotels.

**Stephen Grambling - Goldman Sachs & Co.:** Thanks. And then turning back to the integration synergies and maybe a follow-up to Robin and Felicia's questions, how should we be thinking about the potential impact from revenue synergies at this point? And what do you think you've seen so far?

**Arne Sorenson:** I think we're still very early in the process. We are seeing great anecdotal results from our customers. I think the Index performance is really encouraging to us. In full candor, I worried that there could be some dip in top-line performance in the quarters immediately following the close, because of the impact, particularly on group business from distraction that could have been relevant in quarters before we actually closed the transaction. And what we've seen would suggest that we're performing right through that in a way that's extremely strong. And I think a part of that may be that we are, in fact, taking more share from our customers because of the bigger portfolio here.

It's hard to be definitive about it because we don't have, except through partners and only in a somewhat dated way, share of wallet information. We have what we achieve from our customers, and we obviously can analyze that. And secondly, we are continuing to evolve the loyalty program. So, we need to get to a place where we've got a single loyalty program with the simpler interface with our customers, which hopefully, will take place in 2018. But, at this point, we think that there has been revenue lift, but it's a little bit early for us to claim victory.

**Stephen Grambling - Goldman Sachs & Co.:** Thank you. I'll jump back in the queue.

**Patrick Scholes - SunTrust Robinson Humphrey:** Hey, good morning to you. I apologize if I missed it. Did you say how your group pace for 2018 is tracking? And also for North America in 2018 as well?

**Arne Sorenson:** Group pace and – well, group pace for North America is all we really have, I think, at the moment. Up modestly in 2018.

**Patrick Scholes - SunTrust Robinson Humphrey:** Modestly? Okay.

**Arne Sorenson:** Yep.

**Patrick Scholes - SunTrust Robinson Humphrey:** And then secondly, we're starting to hear a little bit about construction delays due to labor creeping into the development process. Is that something you're seeing at all as well?

**Arne Sorenson:** Yeah, I mean, I think we are seeing the construction process take a little bit longer than we anticipated. And so, the opening seems to have slipped back a little bit by a number of months. We have seen essentially no cancellations, which is good news. And the other bit of good news is, just looking at very current trends, we are seeing construction starts continuing to move forward with considerable momentum. So, I think the construction markets are tight. I think the labor markets are tight, but the deals are getting done.

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

**David Beckel - Sanford C. Bernstein & Co.:** Hi. Good morning, and thanks for the question. Regarding the Alibaba joint venture, I was curious if you could tell us what percentage of your stays outside of China are Chinese guests, and how you think, if you know, that that benchmark is relative to peers?

**Arne Sorenson:** Well, let's see if we can find – I don't know if we've got data that's worthwhile, but, let's break this down, sort of think it through aloud. There were about 125 million outbound trips by Chinese last year. And that would include very nearby markets, which get substantial visitation, which would be Macao, Hong Kong, for example. But then also markets like Korea and Japan, increasingly resort destinations, Thailand, I'd call out and Australia, I would call out. And, I

think in some of these markets, the Chinese are overwhelmingly the biggest visitors. Take Macao as an example. In other markets, they may be – I don't know if we've got...

**Leeny Oberg:** Yeah, in the U.S....

**Arne Sorenson:** In the U.S. it would be tiny.

**Leeny Oberg:** Yeah. 0.2 of a percent in the U.S.

**Arne Sorenson:** I think the U.S. visitation is about 3 million Chinese visitors to the United States in total. And so, they're going to be a pretty small percentage of business in our hotels or in the industry as a whole. But, in most of these markets, it is going up 25 percent-ish year-over-year and has been for some period of time. And we see that in essentially all markets around the world. So, it's a bit of a small base in some markets, but the growth is fabulous and I think, it's going to be that way for many years to come.

**Leeny Oberg:** Just as a reference point for you, roughly three-quarters of the Asia Pacific travel right now is to Asia Pacific, to other parts of Asia Pacific, while the travel to, for example, for our hotels to the North America is 15 percent of their travel.

**David Beckel - Sanford C. Bernstein & Co.:** Got it. That's very helpful, thanks. Just as a quick housekeeping, can you update us on your – the components of your RevPAR guide by group, leisure, and business transient?

**Arne Sorenson:** For Q3 and Q4?

**Leeny Oberg:** For the full-year...

**David Beckel - Sanford C. Bernstein & Co.:** For the full-year, yeah.

**Leeny Oberg:** If you're talking about full-year in North America, if you're talking about 1 percent to 2 percent, I'd say a little bit higher on the transient side than the midpoint, a little bit lower on group, but very, very close to each other. So, similar sorts of growth rates.

**David Beckel - Sanford C. Bernstein & Co.:** Got it. Thank you.

**Joseph Greff – J.P. Morgan Securities:** Hello, everybody. Just with respect to your Alibaba announcement from earlier today, is this an exclusive deal? In other words, can they replicate this with other hotel brands? And how long – if it is an exclusive deal, how long is that period of exclusivity?

**Arne Sorenson:** There are some features of exclusivity in this deal for a period of time. And that's about as far as we'll go. We have a lot to do together. I think we are going to be focused on doing that together. And we're excited about it. I know Alibaba is excited about it. I think this is a joint

venture that would not have happened had we not done the Starwood transaction. I think when the Starwood transaction was announced, Alibaba was one of the companies that saw it and said we are very intrigued by the size of this portfolio, particularly with luxury and lifestyle and sort of the aspirational kinds of hotels that are in our portfolio, and we want to do meaningfully more business with you, Marriott, to help you and to help us. And we think that working together, just the two of us, we can accomplish a lot that's good for us and they can accomplish a lot that's good for them.

**Joseph Greff – J.P. Morgan Securities:** And Arne, is it fair to say that the three-year outlook that you gave at the Investor Day doesn't incorporate any of the benefits from this deal in particular?

**Arne Sorenson:** Well, that's right. But I think the most important part of the benefits of this deal will be driving hotel demand, which obviously will then come through our P&L in RevPAR and fees and incentive fees and the like. While we could conceivably make money on the joint venture itself, but that is not our primary focus on this. And I would caution you not to build anything into the model at this point until we can give you some more sort of color in that in the quarters ahead.

**Leeny Oberg:** Right. As I described, Joe, it's a really very modest investment.

**Joseph Greff – J.P. Morgan Securities:** Great. And just to clarify, I think your comment you made before, Leeny, about the \$700 million by the end of 2018, is that asset sales, or is that all in total capital recycling? And is there a difference? I think there is a difference, but if you can clarify that.

**Leeny Oberg:** You know, it is asset recycling as the way we've described the \$1.5 billion over time, but, obviously, that's overwhelmingly, overwhelmingly driven by hotel sales. I mean, there is, as you heard us talk about, there's a \$60 million loan repayment that we just received last week from a loan that we had out. But overwhelmingly, it's asset sales.

**Joseph Greff – J.P. Morgan Securities:** Thank you, guys.

**Ryan Meliker - Canaccord Genuity:** Hey, guys. Thanks for taking my question. Just a follow-up on some of the asset sale questions you guys have had. We've heard from a lot of the REITs during this earnings season that the liquidity in the debt markets has really opened up. We, obviously, saw a private equity bid for one of the hotel REITs during this quarter. I'm just wondering is, with the \$700 million worth of assets that you guys have highlighted, you know, I understand from, Leeny, what you mentioned with – you've got some ground leases, you've got some other complications, is it realistic to believe that a portfolio transaction could be put together? Or do we think that's really off the table and is really going to be more one-off transactions going forward?

**Leeny Oberg:** One-off transactions. You've got a wide variety of everything from foreign countries to particular issues on ground leases to different kinds of hotels. Obviously, different kinds of investors who are interested in those hotels, so, absolutely I would say these are going to be onesies and twosies.

**Ryan Meliker - Canaccord Genuity:** Okay. Great. That's helpful. And then the only other thing I wanted to touch upon was could you give us any color on how things are performing with the changes in cancellation policy that's obviously being going around the industry?

**Arne Sorenson:** Yeah, I mean, it's been – I don't remember precisely, maybe a month, I suppose, since we announced that, maybe a little bit – June 15, is that when it was? So, six weeks. And what we've heard back has been encouraging. And we're not surprised by that. We did some beta testing in some markets before rolling it out as a brand standard, to see how customers responded to it. Nobody likes incremental restrictions on the flexibility of reservations, but I think most customers understand that we've got a need to manage our inventory and avoid walking people and doing those sorts of things. And, as a consequence, the response has been just fine and we think really no impact on the business.

**Ryan Meliker - Canaccord Genuity:** All right, that's helpful, thanks.

**Thomas Allen - Morgan Stanley & Co.:** Hey, good morning to you. So, just on your North America RevPAR guidance, first half RevPAR guidance – RevPAR came in at up 2 percent, and you chose to cut the guidance to 1 percent to 2 percent from 1 percent to 3 percent, so, can you just talk a little bit more what went behind that? Thank you.

**Arne Sorenson:** Yeah, this will be repeating a little bit what I said in the prepared remarks, but if you look at the first two quarters, we reported at about 2 percent, but if you back out the impact of the inaugural, and obviously, Marriott has got a big presence in the Washington market, we're really running more at like 1.5 percent. And that's – essentially you could do that by taking February through June, if you will.

And as we've said in the prepared remarks, if you look at Q3, which we say roughly flattish. Why? Because you've got the loss of the political conventions in July, you've got shifting of July 4 towards even more midweek than it was last year, which makes the week tougher, and you've got the shift in Jewish holidays into Q3 and out of Q4. And so, if you kind of adjust for those, you're probably in the same 1 percent to 2 percent ballpark. And you look at Q4, you obviously have the benefit in Q4 of the Jewish holidays having shifted to Q3. So, the reported numbers will be better.

But we see there's still a sort of 1 percent to 2 percent range. Obviously, we debated whether or not we should leave our North American guidance at 1 to 3 percent, but we couldn't figure out a math that made 3 percent germane any longer. When you really look at the 1 percent to 2 percent reporting, we think that's kind of the pace we're running at. You can't have the results we've had year-to-date and be flattish in Q3 and expect that you're going to get to a 3 percent number, so we thought it was better to narrow the range.

**Thomas Allen - Morgan Stanley & Co.:** Helpful, thanks. And just a quick follow-up, compared to your prior EBITDA guidance, did asset sales post May 8 have any impact on your new guidance?

**Leeny Oberg:** Yes, they did. If you think about it, the last guidance that we gave included the assumption that you had Charlotte for the full year. It was sold in June, so, as a result, you then drop that out for the rest of the year. Now, that's not a major impact, but it does have a bearing. It's going to be several million.

**Thomas Allen - Morgan Stanley & Co.:** All right. That's what I thought. All right, thank you.

**Shaun Kelley - Bank of America Merrill Lynch:** Hi, good morning, everyone. Hi. So, a lot of my questions have been touched on, but maybe just one on the guidance and then maybe one on China. But, the one on guidance would just be we've seen, as a lot of people have reported this earnings season, that some of the select-service type brands have underperformed across the industry. And as you guys look at what you're seeing in performance there, how much of that would you characterize as more about the corporate environment? And then how much of that do you think might start to have anything to do with supply?

**Arne Sorenson:** Oh, I think – that's interesting. The corporate environment is probably, in some respects, less relevant to the select-service brands than to the full-service brands. It's not irrelevant. Obviously, you've got individual business travelers that are staying there, particularly midweek. But the portfolios are broad. They tend to be a bit more suburban, they probably tend to be more in energy markets than the full-service brands would be, and energy, obviously, is an industry that's tough. So, there's some dynamic of this which is about the distribution of that product.

Could there be a supply piece to it, too? Of course, I mean, the supply growth which is occurring in the industry is disproportionately in upscale, not in upper upscale. And so that has an impact.

But generally, our view is the sky is by no means falling in the select-service space. These are hotels that are performing quite well and are quite profitable, and when you look at what's happening on the development side, you see that our development partners want to do more of them, not less.

**Shaun Kelley - Bank of America Merrill Lynch:** Thanks for that. And then, like I said, switching over to China, and you had mentioned, I think, that 6 percent of your fees right now are coming from China, or something to that extent. What kind of growth rates are you seeing when you kind of add up the fact that you're obviously growing RevPAR extremely quickly at the moment in that market and also probably have a very healthy pipeline?

**Arne Sorenson:** Yeah, I mean, I could think it through with you, but certainly our fee growth is double-digit in China, maybe mid-teens or something even. But because we are getting 6 percent or 7 percent RevPAR growth, which is driving at least the same comp hotel performance, probably even a bit better because of incentive fees, not dramatically different because the way the formulas are, but a little bit better because of incentive fees. And we're growing units at much more than the 6 percent net, which is our average around the globe. It's probably a unit growth more in the 10 percent-plus range. We can provide that to you supplementally at some point in time, but it's a very healthy growth rate, both in China and Asia Pacific as a whole.

**Leeny Oberg:** I'd say it's probably 13 percent to 15 percent.

**Shaun Kelley - Bank of America Merrill Lynch:** Great. Thanks very much.

**Bill Crow - Raymond James & Associates:** Hey. Good morning. Your comments on your dealings with the larger corporate clients, sets up a pretty weak time of corporate rate negotiations this fall. And I'm just curious, last fall you had, I think, what were very strong results from special negotiated rates, and it really didn't follow through to any incremental business, right? We haven't seen it. So, I'm just curious, going into that period, it feels like we're negotiating from a much worse position. Is that fair to say? And do you focus more on occupancy as opposed to rate in that environment?

**Arne Sorenson:** It's a good question. To me, it feels comparable to last year's negotiating session on special corporate rates, maybe actually a little bit better. Don't under-appreciate the optimism, which still seems to exist in the market and in corporate America these days. And compare it to the point of view last August, September, and October, you're talking about a pre-election time. I think there was not a sort of robust optimism. Economy seemed to be producing, again, fairly anemic GDP growth. And I think in some respects, while that fairly anemic GDP growth has continued into 2017, there is still some optimism. You can see it reflected in certainly the equities markets and other places. That will flavor a little bit those sorts of conversations.

So, I think when we get into those negotiations, we will, obviously, start with we're running high occupancies and your profits are good and talking about the terms that are a part of those contracts. And I suspect we'll sort of end up in the kind of range we negotiated last year, although we'll have to see. It obviously is something that we're just starting at this point in time.

**Bill Crow - Raymond James & Associates:** That's helpful. Arne, real quick, last quarter, you talked about franchise application volumes peaking in 2015 and being flat in 2016 and down in 2017. Has that continued as this year has progressed?

**Arne Sorenson:** Yes, I mean, I talked about the – that's really about select service growth in the United States and I think we signed more deals in 2015 than we did in 2016, when you adjust, obviously, for apples to apples and new brands and the Starwood merger and the rest, our numbers are continuing to go up because we are bigger with more brands. And there are some tremendous opportunities as we go forward. We look at the strength of – a renewed strength of Aloft and Element, for example, and what we hear from our franchisees, they are much more interested in those brands than they were in the past.

AC Hotels is on fire in the United States as well as elsewhere, and Moxy looks like a global home run. So, there's some good stuff there. But, when you look at the United States, I think what we see is very healthy steady growth, but probably not at the levels fairly adjusted that we saw in 2015, and I don't think we'll get back to 2015 levels unless the economy with greater clarity improves from where it is today.



**Bill Crow - Raymond James & Associates:** Great. Safe travels. Thanks.

**Arne Sorenson:** Thank you.

**Wes Golladay - RBC Capital Markets:** Hey, good morning, everyone. Looking over at the Greater China region, it looks like you have the most demand growth there, but that's the one region where you don't have any pricing power. And can you comment on when you think that region will get pricing power?

**Arne Sorenson:** I'm not sure I'd say that it has no pricing power.

**Leeny Oberg:** Right.

**Arne Sorenson:** China's obviously a very big market. Asia Pacific is a very big market. Even if you look within China, Shanghai trades very differently from Chengdu, for example. And in years past, what we saw is much greater strength in Shanghai than in a market like Guangzhou, although Guangzhou has started to turn decidedly more positive. And it's driven by occupancy and intensity of demand, and I think we'll see that we continue to have probably more ability to move rates in the strongest markets in the years ahead than we've had in the last few years. But we feel, actually, quite good about it.

**Wes Golladay - RBC Capital Markets:** Okay. And then maybe just looking at that occupancy, it looks like it's only 70.8 percent, which is still well below the U.S. Not every market is comparable, but do you have a lot more upside on the occupancy there? Are these just assets taking a few years to stabilize?

**Arne Sorenson:** Well, I suspect they'll stabilize a little bit lower than assets in North America. But there is, within the comp portfolio, a lot of hotels that have opened relatively recently and a lot of markets which are just sort of being defined. And, as a consequence, I think we'll see as they mature that they will continue to build occupancy going forward and that gap probably will shrink to some extent in the years ahead, because we'll have relatively higher percentage which are comp hotels – sort of truly comp hotels, in other words, stabilized hotels.

**Wes Golladay - RBC Capital Markets:** Okay. Thanks a lot.

**Carlo Santarelli - Deutsche Bank Securities:** Hey, everyone, good morning and thanks for taking my question. Leeny, just to kind of go back a little bit with respect to your incentive fees, obviously, all the parts are in place, your international business is growing well. I believe there was a line in the release that talked about more than half of your incentive fees were obviously coming from outside of North America, and you had about 64 percent generating incentive fees.

In the first quarter, I think you guys guided incentive fees down 10 percent for the quarter and obviously grew nicely. For the 2Q, it was flat and grew nicely. For the 3Q, you had commented on flat again. All the elements are kind of in place to see some of the growth that we've been seeing,

but it seems like the outlook around incentive fees remains somewhat tempered. Did we pull some fees forward in this year, or is everything fairly linear and we could think about a relatively robust back half, absent kind of the flattish guidance for the 3Q?

**Leeny Oberg:** So, really good question, and definitely you point out something that is true, that we have, I think, been fairly conservative as we looked at IMF as we started the year. Part of it, again, if you remember, FX, I think when we started the year, we thought that we were going to end up with a stronger dollar through the whole year, and I think that we have seen some lessening of that impact. We've frankly seen stronger margin performance than we expected in some markets, which has been helpful, and so we've outperformed.

There is the reality, the way that we book our incentive fees, that as you go through the year, you have the possibility of having to give some back, depending on the performance of the various seasons during the year. And I think it is the case that in Q3, given the RevPAR that we're looking at, we could see that that happens.

But, as we've said, you've described the beginning of the year, we have moved to where we're talking mid-single-digits growth rate for incentive fees for the year, which I think does reflect the fact that we've had a bit stronger performance on the profit line than at the beginning of the year we anticipated.

**Carlo Santarelli - Deutsche Bank Securities:** Great. Thank you. That's very helpful.

**Vince Ciepiel - Cleveland Research Co.:** Great, thanks. Last year at this time, you noted group for 2017 was pacing up about 7 percent, and right now it sounds like it's on track for a little bit shy of 1.5 percent. Curious if that's evolved as you've expected in the last 12 months. And then I think you noted group for 2018 was pacing up modestly. Like, what's your best guess at how that evolves in the next six months?

**Arne Sorenson:** Yes, it's a good question. I think group has softened a bit more than we would have anticipated. Now, we always anticipate, when we start a year with mid to high-single-digit group revenue on the books above the prior year that we'll give some of that back over the course of the year because some of that is about booking earlier, and therefore having a bit less capacity for in-the-year, for-the-year group business. But I think to be fair, we're forecasting right now and believing right now that we're going to end up stayed-and-paid group business in the books in 2017 a bit less than what we would have anticipated when the year began. And I think we're seeing 2018 a touch more modest than we would have expected a few quarters ago.

Why? You know, it's probably a little bit the lengthening of the booking window. It's probably a little bit the tough comparisons. Think about that 80 percent occupancy, roughly. And we've been putting a lot of group business on the books for the last few years, so that gets a little bit tough. But I think there's probably a piece of some corporate cautiousness that is preventing us from posting even better numbers.

**Vince Ciepiel - Cleveland Research Co.:** Great. Thanks. And then just as you think about the fourth quarter, I know there's some push/pull with the holidays, September, October. How is October pacing? And are you feeling really good about that month?

**Arne Sorenson:** October will be a great month. Now, part of that is the Jewish holidays that were in October last year will not be in October this year. But the group business on the books for October, a benefit of that holiday shift, October will be a great month.

**Laura Paugh:** And the fourth quarter will be a great quarter.

**Arne Sorenson:** I should keep my fingers crossed and knock on wood when I say it that definitively, but October and the fourth quarter as a whole will be obviously a fairly strong quarter, certainly compared to Q3.

**Leeny Oberg:** And the difference in group between the two quarters is marked.

**Vince Ciepiel - Cleveland Research Co.:** Great. Thank you.

**Arne Sorenson:** All right, I think this is the last question. So, have at it.

**Jared Shojaian - Wolfe Research:** All right. Thanks for squeezing me in. Good morning to you guys. Arne, you referenced some upside potential in the back half for both Asia and Europe. How should we think about that comment in relation to the full year 1 percent to 3 percent RevPAR guidance? Does that imply upside to the guide or are those just – those two regions are just not really big enough to move the needle?

**Arne Sorenson:** Well, I think – well, they're big. And I think if you look at the year-to-date and you look at the guidance numbers, the relative softness in the U.S. compared to maybe our hopes, I suppose, has been at least offset by the greater strength that we've seen outside the United States. So, while we've brought down, for example, to 1 percent to 2 percent instead of 1 percent to 3 percent, the North American number for full year, we're sticking at a global systemwide number of 1 percent to 3 percent because we think that international contribution is at least as strong as the risks in the United States. How it ultimately pans out, we'll have to see. But we've done our best to reflect the best guidance we've got in the numbers we've give you this morning – this afternoon, I should say.

**Jared Shojaian - Wolfe Research:** Got it. Okay. And then, Arne, I thought your point on pricing transparency this cycle perhaps may be holding back rate a little bit. I thought that was interesting. Can you elaborate on that a bit? Are you specifically referring to some of these third-party sites that are monitoring fares? Is it OTAs, home sharing, maybe a combination of all of it? We'd love to hear your thoughts on that.

**Arne Sorenson:** Well, I think it's all of it. But it's not particularly focused on home sharing or the disruptors in the space. It's much more about just the ubiquity of information. And I think with

each passing year, it becomes simpler and simpler to know the rates at every single hotel, quite simply, within our own system. So, you've got that transparency on Marriott.com just as you do through other platforms. And with an increasing participation in the industry of the franchise community with individual pricing decisions that are being made by individual hotels, I think that's the world we live in. It does not mean that there won't be ability to drive rate in the future. We do have the ability to drive rate, certainly on midweek nights and others where the hotels are effectively full. But I don't think it's quite the environment we might have had in years past where probably there's a little bit more flexibility to do that.

Okay. Well, thank you all very much for your time and attention this afternoon. We appreciate your flexibility, particularly with the schedule change, to pull you in after the markets close instead of as they open. But we thank you, as always, for your interest in Marriott and we wish you the best for the rest of the summer. Get out there and stay in our hotels. We'd love to be able to welcome you. Thanks, everybody.

---END---

**Note on forward-looking statements:** This document contains “forward-looking statements” within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add to or remove from our system in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this document include changes in market conditions; changes in global and regional economies; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; and the extent to which we are able to successfully integrate Starwood, manage our expanded operations, and realize the anticipated benefits of combining Starwood and Marriott. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of August 7, 2017. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.