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 annual or quarterly report on Form 10-K or Form 10-Q. Risks that could affect forward-looking statements in this document include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; and the availability of capital to finance hotel growth and refurbishment. 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 April 30, 2015. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc.
First Quarter 2015
Earnings Conference Call Transcript[1]
April 30, 2015

Operator: Welcome to the Marriott International first quarter 2015 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the president and chief executive officer, Mr. Arne Sorenson. Please go ahead.

Arne Sorenson: Good morning, everyone. Welcome to our first quarter 2015 earnings conference call. Joining me today are Carl Berquist, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

For those of you who joined our call early, we hope you enjoyed the soundtrack from our film, "*Two Bellmen*". This short film, highlighting the JW Marriott Hotel at LA Live, premiered on March 10th. It's already clocked over 5 million views on YouTube. It is innovative and a big part of our receiving the Brand of the Year award at the Cannes Media Conference in April. If you haven't seen "*Two Bellmen*", we urge you to take a break from the busy earnings season for 17 minutes of fun. Our second film, "*French Kiss*", launching next month, is set at the Paris Marriott Champs Elysees Hotel.

Consumers are enthusiastically embracing the use of technology and social media as a means to obtain information and enjoy entertainment. And we are doing the same… offering exciting content that features our company's brands and the opportunity for unique experiences… in an entertaining and informative way.

Technology is an important part of the lodging business today, but it's not just about bookings. While we delivered over 72 million roomnights through Marriott.com last year, we were also the first hotel company to launch mobile check-in and mobile check-out systemwide. You can see our "1 millionth check-in" flash mob celebration on YouTube. We were the first hotel company to use Oculus Rift to showcase travel experiences. And we were the first to begin testing Apple Pay at

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

select hotels. Across the company we remain focused on innovation; more is coming, so stay tuned.

In the meantime, as we will discuss earnings this morning, 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 last night, along with our comments today, are effective only today, April 30, 2015, and will not be updated as actual events unfold. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

Two months ago we opened the JW Marriott Mumbai Sahar. This is our second JW Marriott Hotel in Mumbai and our 28th hotel to open in India. With 585 rooms, this luxury property covers 15 acres and offers fabulous indoor and outdoor meeting space. I was there for the opening and also attended the South Asia Hotel Investment Conference in Delhi. The election of Prime Minister Modi has ramped up optimism about the business climate and the economy in India. Lower interest rates are helping, too. Many expect that the rate of economic growth in India in 2015 could exceed China's. Today, tourism in India accounts for nearly 7 percent of GDP and is the third largest foreign exchange earner for the country. Just five months ago, India launched "e-tourist", a visa-on-arrival program for travelers from 43 countries. The number of countries included in that program should increase dramatically during 2015. The hotel owners and developers I spoke with are bullish about India. We have over 45 properties in our India development pipeline, and more are in discussion.

Recently, I traveled to Toronto to welcome Delta Hotels to Marriott. The transaction closed on April 1. With Delta, we obtained a terrific full-service brand with significant growth potential and the largest full-service hotel market share in Canada. We plan to grow the brand globally and franchise offering documents for Delta should be available in the next few months.

In Europe, hundreds of investors, lenders, developers and owners turned out for the Berlin International Hotel Investment Forum in the first quarter. They were bullish about Europe and so are we. We are accelerating our European expansion with additional development staff and a broad number of brand offerings. Our development pipeline in Europe increased nearly 20 percent in the last 12 months driven by owner demand for Courtyards, Residence Inns and Moxy Hotels, as well as our full-service brands.

Our worldwide development pipeline totaled over 240,000 rooms at quarter end. Openings are accelerating. In the first quarter, we opened over 10,000 rooms compared to nearly 6,000 rooms in the prior year's quarter. We are on pace to grow our global system by roughly 8 percent in 2015, including the 10,000 Delta rooms. Net of deletions, our system size should grow by 7 percent in 2015. This is no fluke. Given the substantial number of rooms under construction in the pipeline, we also expect our organic rooms growth will accelerate in 2016.

To be sure, room growth is an important measure of success. However, we also know that not all rooms are created equal. Real economic value is linked to annual fees, length of contract, amount of our invested capital, skill of the operator, and the quality of each hotel asset. Further, as we are building a highly valued portfolio of hotels and brands, the impact of new hotels on the system is also relevant. It's also why the incentive compensation for our development organization is based on both net present value of the contracts signed, as well as the number of rooms delivered. We are succeeding on both measures.

Our hotel distribution skews to the highest RevPAR markets, and our share of those markets is increasing. We've talked a lot about our room share gains in the U.S. The numbers worldwide are as impressive. On a worldwide basis, we estimate a 4.5 percent share of rooms today; in the largest 100 global markets, we have a 6.4 percent share. And in those largest, most valuable markets, our share of rooms under construction is nearly 16 percent.

Our development effort is successful in part because, with our broad and growing brand portfolio, we can offer the right brand for each asset and market. This means we can play in more sandboxes than many of our competitors, winning the highest value opportunities.

Our brands are strong and deliver significant RevPAR with our sales and marketing engines, including Marriott Rewards and Marriott.com, delivering meaningful demand. We've demonstrated this with Autograph conversions. At the end of 2014, the 21 North American hotels converted into the Autograph Collection that had been part of the collection for two full years have enjoyed absolute RevPAR gains averaging 29 percent compared to their pre-conversion performance. Eight other Autograph hotels, in the collection for just one full year, saw their absolute RevPAR boosted by 32 percent.

Premium RevPARs yield premium fees. Our effective royalty rate on our U.S. franchised hotels totaled 5.3 percent of room revenue in 2014. And U.S. royalties continue to move higher. While royalty rate increases only apply to new signings, relicenses or renewals, if we apply our newly published stabilized royalty rates to the same top line, our average franchise royalty would total 5.8 percent of room revenue.

Looking at this more broadly, on a worldwide basis, and including both managed and franchised hotels, we signed deals with nearly 17,000 rooms in the first quarter. We expect these new managed and franchised rooms worldwide will deliver over $38 million of annual fee revenue in their third year of operation.

And they should deliver these fees for a very long time. We estimate our existing contracts have an average of 17 years remaining. The length of our newest contracts average 20 to 25 years.

Our capital commitments to new development are targeted and modest. Since 2010, we've invested roughly $300 million per year in our lodging business, net of asset sales. Nearly half of this has been invested in relatively small M&A deals. In this time period, we have increased our worldwide rooms distribution by more than 20 percent and increased our fee revenue by nearly 60 percent. Having a strong balance sheet is a competitive advantage when it's employed judiciously.

Across the U.S., financing availability continues to ease, particularly for our limited-service products. In many smaller U.S. markets, strong demand and rapid RevPAR growth encourages franchise development. In large urban markets like New York, high absolute room rates and high labor costs offer a compelling limited-service investment thesis as well. Outside the U.S., rapidly growing demand attracts hotel investment in emerging markets.

But there are also restraints to development. With strong limited-service hotel returns, there are few full-service hotels under development in the United States. High equity requirements, increasing construction costs, and likely increasing interest rates discourage development in weaker demand markets. In fact, we've seen declining oil prices shelve some projects in Texas and North Dakota.

In New York, while the long-term outlook is still very bright, the recent rapid supply growth is causing some developers to reconsider new projects in that market.

In some cases, attractive alternative investments constrain supply. For example, in San Francisco, real estate developers are focused on the very attractive residential and office opportunities, not hotels, despite very high RevPAR growth in that market.

All combined, STR expects U.S. supply growth of only 1.3 percent in 2015. We believe the U.S. industry could reach the long-term average of roughly 2 percent supply growth by 2017. But this does not in itself signal the end of the cycle.

In fact, in 1996, U.S. industry supply grew by 2.4 percent and continued to grow in excess of 2 percent for the next five years. Despite these five years of supply growth, the industry also continued to grow RevPAR… until the economy turned down in 2001.

While rapid supply growth can constrain performance in a given market for a time, and on a macro basis can make a downturn more painful, we've never seen a change in supply trigger the end of a cycle. Rather, cycles end due to a declining economy and/or an external shock. By the way, from 1996 to 2001, Marriott increased its market share of rooms in the U.S. from 5.5 to 7.8 percent. And we are enjoying the benefits of that expansion even today.

Now I'd like to turn things over to Carl to talk more about our outstanding first quarter results. Carl?

Carl Berquist: Thanks, Arne.

For the first quarter of 2015, lodging demand was very strong and constant dollar worldwide systemwide RevPAR reached the top end of our guidance. Diluted earnings per share totaled \$0.73, 3 cents ahead of the midpoint of our guidance of \$0.68 to \$0.72.

Roughly 3 cents came from better than expected fee revenue; we picked up a penny on the owned/leased line, largely due to strong results in Tokyo; and 2 cents of outperformance came from favorable G&A, largely timing related. Our strong results were partially offset by roughly 3 cents of impairments recorded on the depreciation line. With first quarter RevPAR growth at the high end of the range, better than expected incentive fees for the year, and the addition of Delta, we increased our fee revenue outlook for 2015.

In North America, systemwide transient RevPAR rose 7 percent with room rates up 5 percent. We successfully reduced the volume of special corporate business in favor of a greater volume of higher rated retail business. Group RevPAR at our full-service hotels in North America rose more than 5 percent, including 4 percent from higher room rates. Demand from smaller groups was particularly strong.

Systemwide RevPAR at our limited-service hotels in North America increased more than 8 percent. We saw strength in both transient and small group demand at Courtyard and greater short-stay business at Residence Inn.

Looking across the markets, we saw double-digit systemwide RevPAR growth at our hotels in Boston, Tampa, Dallas, San Diego, and San Francisco. Our systemwide RevPAR in New York declined 1 percent as a result of snowstorms, tough comparisons to last year's Super Bowl, and continued limited-service supply growth. It was the only market of our top 20 in North America that showed a RevPAR decline.

Looking ahead, we expect North American systemwide RevPAR to increase 5 to 7 percent in the full year with continued strong transient and group RevPAR. Our full-service hotel group booking pace for the remainder of 2015 is up roughly 4 percent. You probably recall that the third quarter of 2014 benefited from shifting holidays and very strong group business. In 2015, group business in the third quarter will face these tough comparisons.

Outside North America, first quarter systemwide comparable RevPAR rose nearly 7 percent on a constant dollar basis, well ahead of our expectations. On an actual dollar basis, international RevPAR was flat year-over-year.

In the Caribbean and Latin America region, systemwide constant dollar RevPAR increased 6 percent, with strong performance in Mexico and at resorts and leisure destinations in the Caribbean. For the full year, we expect RevPAR will increase at a mid-single-digit rate with a tough comparison to last summer's World Cup in Brazil.

In the Asia Pacific region, first quarter constant dollar systemwide RevPAR rose more than 6 percent, with particular strength in Japan and India and easy comps in Thailand. Systemwide RevPAR in Greater China increased modestly reflecting strong results in Shanghai but lower RevPAR in Hong Kong. We believe these Asia Pacific trends will continue yielding full year RevPAR growth at a mid-single-digit rate for the region.

One of the best positive surprises in our first quarter was the 7 percent comparable hotel RevPAR growth in Europe. This growth was well ahead of our expectations due to strong attendance at group events in Germany and higher leisure business in London and Amsterdam. Roomnights from U.S. travel to our European hotels increased 9 percent in the quarter. Despite the strong first quarter, we expect a mid-single-digit growth rate for the full year. The economies of France and Russia are weak and Central Europe comparisons get more difficult late in the year. Nevertheless, we still hope to see a strong U.S. summer tourist season in Europe.

In the Middle East and Africa, constant dollar RevPAR rose more than 9 percent largely due to the improving political environment in Egypt and strong government and group business in Qatar. For the full year, we expect a mid- to high-single-digit constant dollar RevPAR growth. The shift in the timing of Ramadan could result in very modest RevPAR growth in the second quarter and outsized gains in the third quarter.

Turning to margins… house profit margins at company-operated hotels in North America increased 120 basis points. Utility costs declined and productivity improved. Worldwide house profit margins also increased 120 basis points.

Our house profit margins reflect the new accounting guidelines for the lodging industry, which require service charges to be included in property revenue. Excluding the impact of this accounting change, we estimate our North America house profit margins would have improved 150 basis points in the first quarter.

Total fee revenue increased 18 percent in the quarter. Base fees rose 6 percent reflecting higher managed hotel RevPAR and unit growth. Incentive fees increased 25 percent with better than expected results at Ritz-Carlton and Marriott resorts in Florida and the Caribbean. In addition, roughly $3 million of the higher incentive fees were related to the timing of incentive fee recognition at one resort and $2 million was related to very strong performance at our North American limited-service hotels.

Worldwide, 48 percent of our managed hotels paid incentive fees in the quarter compared to 35 percent in the year-ago quarter. In North America alone, 35 percent of managed hotels paid incentive fees compared to 21 percent in the year-ago quarter.

Franchise fees increased 25 percent in the quarter. Roughly half of the increase was higher royalty payments associated with unit growth and RevPAR improvement. The remainder of the growth was due to higher relicensing fees associated with hotel transactions. With a robust hotel resale market, we relicensed over 250 franchised hotels during the quarter. Typically, the new agreements reflect higher stabilized royalty rates than previously, and frequently include a commitment to make property improvements.

Owned, leased, and other revenue, net of expenses, totaled $63 million in the quarter, 29 percent higher than the prior year, driven by $5 million from the Protea transaction and a favorable $3 million impact from expired leases.

Depreciation and amortization totaled $44 million in the quarter compared to $36 million in the prior year. The increase was largely due to the first quarter impairments, as I mentioned earlier.

General and administrative expenses declined in the quarter due to favorable litigation resolutions, partially offset by higher guarantee reserves.

Foreign exchange reduced our pretax income in the first quarter by roughly $4 million, largely in fee revenue. For the full year, we expect fx to reduce our pretax income by $20 to $25 million. These amounts do not reflect the impact of exchange rates on travel trends.

For Marriott International, our adjusted operating profit margin in the first quarter increased from 42 to 48 percent. We repurchased 5.5 million shares during the quarter for approximately $431 million. Our average fully diluted share count in the quarter was 6.5 percent lower than in the prior year and nearly 25 percent lower than five years ago.

For the second quarter, we expect worldwide RevPAR to increase 5 to 7 percent. Our fee guidance for the second quarter includes roughly $4 million from the acquisition of Delta.

Incentive fees are likely to be flat year-over-year in the second quarter. We continue to expect strong incentive fees from limited-service hotels in the quarter, but they are likely to be offset by the impact of full-service hotel renovations and a shift in timing of fee recognition at one resort, which benefitted the first quarter. Foreign exchange should also be a headwind. All in all, we expect incentive fees will grow at a mid-teens rate for the full year.

Our owned, leased and other results in the second quarter reflect property renovations and pre-opening expenses for The New York EDITION.

Turning to the full year, we expect worldwide RevPAR will increase 5 to 7 percent in 2015. Combined with unit growth and the acquisition of Delta Hotels, we expect our fee revenue will increase 10 to 12 percent to roughly $1.9 billion.

Our fee guidance for 2015 is up roughly $15 million from our last forecast. This reflects our very strong performance in the first quarter and the addition of Delta fees to our forecast, offset by roughly $10 million in weaker fees associated with delays in new property openings and foreign exchange.

Owned, leased and other revenue, net of direct expenses, should increase slightly year-over-year reflecting higher credit card branding fees offset by lower termination fees.

We expect depreciation and amortization to total roughly $150 million, including the $12 million of impairments booked in the first quarter and approximately $3 million of incremental amortization for the Delta transaction.

We expect our full year general and administrative expenses will decline to $635 to $645 million reflecting modestly higher core admin costs and the addition of expenses associated with Delta operations. These should be offset by the impact of favorable legal settlements, an easy comparison to the 2014 Bolivar revaluation, higher deferred development costs and a favorable impact of foreign exchange. The G&A outlook does not include transition or transaction costs associated with the Delta acquisition.

All in all, we continue to expect fully diluted EPS will total $3.00 to $3.12 in 2015, an 18 to 23 percent increase from 2014. This includes the unfavorable $0.03 of impairment discussed earlier, which was not included in our previous full year guidance.

We expect adjusted EBITDA will increase 14 to 17 percent for 2015. Investment spending could total $600 to $800 million, including about $140 million in maintenance spending and $135 million for the Delta acquisition. We will remain disciplined in our approach to capital investments and share repurchase. We expect to recycle roughly $650 million from asset sales and loan repayments during 2015, including the sale of The Miami Beach EDITION, The New York EDITION, and a Courtyard in Paris, transactions which are already complete. We expect to return at least $1.75 billion to shareholders through share repurchases and dividends this year.

There are a lot of exciting things going on at Marriott. After investing north of $800 million to build three EDITION hotels, and successfully monetizing all three, we are celebrating completion of these projects with the opening of our New York EDITION Hotel. As many of you will be attending the New York University Hospitality Conference in early June, we are hosting tours and a reception for the investment community at The New York EDITION on the afternoon of June 2nd. Give Laura Pearce in investor relations a call or email if you would like to join us.

We appreciate your interest in Marriott. So that we can speak to as many of you as possible, we ask that you limit yourself to one question and one follow up.

QUESTION AND ANSWER SESSION:

Felicia Hendrix, Barclays Capital: Arne, you talked a lot about organic growth in your prepared remarks and how the breadth of your Company's portfolio is a major driver of that growth. And you know, you know that -- as you know, there's been increased discussion of M&A in the lodging sector, and it has certainly taken on increased vigor now that Starwood announced their strategic review. Can you just help us understand the role Marriott plays in this M&A discussion?

Arne Sorenson: Well, obviously we've been reasonably active the last four or five years in doing these smaller, bolt-on acquisitions, probably starting first with AC Hotels, but then including Gaylord and Protea and most recently Delta in Canada.

They all have some similarities in the sense that they are $100 million to $200 million transactions, something like that. On average, about 10 times EBITDA, sometimes a little bit lower multiples than that. As a consequence, they turn out to be essentially flat in first-year results and accretive fairly quickly thereafter.

And obviously there's a decent arbitrage between our valuation and the valuation we're paying on those acquisitions. But beyond that, each one of those also gives us an incremental platform for organic growth. And it is crystal clear that there is nothing like organic growth in this business. By and large the strength of the brands delivers management and franchise contracts at very light capital costs, if any, and that provides essentially nearly infinite returns. And that's what we want to remain focused on.

We would love to do more deals if there are more deals in the market that meet those kinds of parameters. Obviously your question refers to Starwood and the strategic review announcement they made yesterday. For obvious reasons we won't talk a lot about that, but I think if you can compare the attributes of the deals I've just talked about our having done in the last few years with the attributes that would be associated with a deal with somebody like them, you can see that there are quite profound differences between the deals that we've done and that hypothetical transaction.

Felicia Hendrix, Barclays Capital: That's really helpful. I appreciate that. And then just as a follow-up, we have seen a continued divergence in RevPAR growth for your select-service hotels versus the full-service hotels, and clearly that's a function of the cycle and the earlier recovery of the full-service hotels.

But when you look at the RevPAR growth rates of the full-service hotels at this point in the cycle, are there programs that you are employing to perhaps generate faster growth there as we progress?

Arne Sorenson: Yes, I think one of the things that's happening with those limited-service brands, particularly Courtyard, we've done -- a lot of capital has gone into our portfolio of hotels. And I think Courtyard is just on a roll, for example, and it has always been a very strong brand, but its index is moving up with the capital that's gone in. And we think the brand is doing extremely well. And I think we've done things with the other CFRST brands as well which has been a little different from brand to brand, but generally has been ramping up - renovations and ramping up new model rooms and marketing efforts, all of which I think are benefiting those brands.

Felicia Hendrix, Barclays Capital: Okay, thank you so much.

Robin Farley, UBS: Just another way to ask the question, so I guess how would you think about just theoretically increasing your exposure to the luxury segment more when we're this late in the cycle? If something were at the right price, and even though that's not what we've seen you do in terms of the last couple of transactions, do you have a view on this late in the cycle that that would be something you would want to do? Or does the period where you are in the cycle not impact that view?

Arne Sorenson: Obviously it's less about cycle than it is about value, I think. And any transaction we do we are going to be, in the first instance, focused on whether or not we are creating value for our shareholders. And that goes to questions about what multiple are we paying, what kind of upside is there post transaction, either because of cyclical factors or because of size of upside that we can deliver on either revenue or cost synergies.

I think there have been some questions not asked yet this morning about luxury RevPAR growth and whether the lighter numbers in luxury RevPAR growth are somehow a harbinger of weaker times to come. We don't believe that to be the case at all. Most of the luxury industry numbers, and to a significant extent even our Ritz-Carlton performance in Q1, is driven mostly by the disproportionate distribution of luxury in New York.

New York, as everybody on this call knows I think, has the weakest RevPAR market in the United States today. And because it has a substantial bit of the luxury product in the United States, that impacts those numbers.

We see luxury as continuing to be a strong performer. We think the Ritz-Carlton brand is obviously an extraordinarily powerful brand. But we also love what's happening with EDITION, which is a luxury boutique product, and Bulgari and JW Marriott, which is now, what? 75, 80 hotels, if I remember correctly, and growing very quickly. And we think the future for luxury is pretty bright.

Robin Farley, UBS: Maybe if I could just ask as a clarification, just to square. In your opening remarks you made a comment that the change in supply growth isn't one triggers the cycle, but then you also just talked about the declines in New York, which seem clearly driven by supply there, which is also going to continue next year as well. I guess how to think about if it's -- just to square those two comments, I guess.

Arne Sorenson: Yes, I think New York is -- obviously gotten supply growth of, I don't know, 5 percent or so a year for the last four or five years and I suspect will have supply growth in that range in the next couple of years. I don't think that means that the cycle is over in any respects. I think we'll see that demand continues to build for New York; New York has had too few hotel rooms.

Maybe take that with a grain of salt from a hotel person but I think, in many respects, New York has been a hard place to hold a meeting. It's been a very expensive place to visit because there has not been enough capacity. And I think with the redevelopment of the West Side in Manhattan and with the strength of international inbound travel, New York will easily absorb this supply over time and I think continue to perform very well.

And so, the comments on New York in no way suggests that that's a sign that the cycle is over, if you will. I think New York will continue to do well.

Robin Farley, UBS: Okay, thank you.

Shaun Kelley, Bank of America: Arne, in the prepared remarks you mentioned an acceleration in unit growth in 2016. And I know it's still a little far out, but can you just give us a little bit more color on what's driving that? And would that be accelerating off of your organic base of this year, which would be probably around 6 percent on a net basis?

Arne Sorenson: Yes, we're really talking there about organic growth likely to -- openings, pick up in 2016. And while not in the script, I suspect 2017 will be even better. I'm not going to give you a number yet today because we still got planning to do. And we don't -- obviously, every one of these deals is being done by a third party, essentially not us, so we are dependent on them for information and to some extent we guess on precisely the opening dates.

But I will give you just the statistics that show why this is an obvious comment. Signings in the last five years -- these are essentially organic signings -- we've signed a bit over 30,000 rooms in 2010, a bit over 40,000 rooms in 2011, a bit under -- just under 50,000 rooms in 2012, almost 70,000 rooms in 2013, and excluding Protea again, over 90,000 rooms in 2014. Obviously signings are an event which occurs two to three years, maybe on average -- 2.5 to three years, I suppose would be a more narrow average -- before hotels open.

And so, as we get farther into this cycle we will see that the openings that are near certainty from the signings that we've done in the last year will continue to step up.

Shaun Kelley, Bank of America: That's great. And then my follow-up would be -- and I'm not sure if this is for you, Arne, or for Carl -- but you mentioned separately about the royalty rate and that there was a pretty significant number of hotels that were relicensed during the quarter and that your blended royalty rate on the new contracts, I think, was 5.8 percent. So my question is, because I don't think we get clarity from our models exactly where your existing average royalty rate is -- what's the difference between those two numbers, and how much is it increasing on a year-on-year basis?

Arne Sorenson: Let me try this -- and then Carl, jump in if you want to add something different. The existing -- it's actually 2014, not first quarter of 2015 -- but the 2014 numbers were -- U.S. franchised hotels, 5.3 percent of rooms revenue that was achieved. That is based on the royalty rates that then applied, and it would not be rare for the first year or two for there to be some ramping in royalty rates and maybe not getting to a full royalty rate until the second year or the third year. It will depend a little bit by brand and the strength of that brand.

The other number we gave you was this 5.8 percent number, and essentially that's a number that -- it's theoretical at this point, but essentially means that if the stated royalty rates that we have now in our franchise circulars applied to every hotel for each of those brands, also in the U.S., we would achieve 5.8 percent of rooms revenue as our royalty rate. So in effect that difference of 50 basis points is the potential, as the whole system renews or relicenses or signs new management contracts.

In all likelihood it will be many, many, many years before you ever get to that, because some hotels will essentially never sell. And so you are decades out maybe before you would get to renewals or something else of this sort.

Shaun Kelley, Bank of America: Got it. Thanks for the clarification.

Harry Curtis, Nomura Securities: A couple of quick follow-ups. Carl, you mentioned that the incentive management fees benefited from $2 million more in limited-service incentive management fees. Was that the Courtyard brand?

Carl Berquist: That includes the Courtyard brand; it's all our select-service brands combined, but Courtyard is definitely a big player in that.

Harry Curtis, Nomura Securities: Yes, the reason I ask is, because of the significant renovation program at Courtyard, through 2008, 2009, to 2010, your royalty rates or your IMF hurdles had to go up. And so, specific to the Courtyard brand, which is where there may have been over $50 million shortfall in IMFs because of that higher royalty rate, how much closer are you today in achieving incentive management fees where, over the past, say, year, you really were much farther away?

Carl Berquist: Well, I think what you are seeing is more and more of our limited-service hotels are starting to break through and earn incentive fees. I was just looking for the number here as to what percent of our select-service hotels are now earning. I will just get it here for you in a minute. I think it's 31 percent in the first quarter, and that was compared to what last year, Betsy?

Betsy Dahm: 13 percent.

Carl Berquist: 13 percent last year. So you can see we're starting to see an acceleration of the managed select-service hotels starting to pay. Now, the caution I always give with that, that's hotels, that's not dollars as much. And so, if they only paid $100, they are in that number. But nonetheless, with RevPAR growth that you are seeing in the limited-service area, that is causing us to break through those hurdles and despite the fact that a lot of capital was put into the Courtyard brand in those previous years.

Laura Paugh: If I can add to that, Carl. At the peak of the last cycle we made about $80 million on limited-service hotels.

Carl Berquist: Yes.

Laura Paugh: At the bottom of the market, when things were so tough, it got down to about $5 million. Last year we made about $20 million, so we've already seen a nice bounce off the bottom. And this year we could do as much as $30 million to $35 million.

Harry Curtis, Nomura Securities: Okay, thanks. That's the number I was after, Laura. And then my second question had to do with the group pricing. You mentioned that it was up about 4 percent, but given the high occupancies that you are seeing in many of your group markets, why aren't your revenue managers getting even more aggressive on their future pricing?

Arne Sorenson: Well, I think they are. We didn't hang this out there in our prepared remarks, but if you look at the bookings we did in the first quarter of 2015, for the next 12 months, pricing -- room rates were up 6 percent and room nights were up 3 percent. So, 9.5 percent of revenue growth for the bookings in the quarter for the next 12 months.

And when you look at the next 12 months -- so essentially two years out, 13 to 24 months out -- you've got about the same: 5.5 percent rate growth and 3.5 percent room growth. And so, in fact, we are seeing that dynamic very much in play here.

Harry Curtis, Nomura Securities: Okay. That was what I was after. Thanks.

Steven Kent, Goldman Sachs: Can you talk a little bit more about the international side of things? Inbound international travel demand to the U.S.; Europe, given fx movements, so Europe for Europe or international into the U.S.. And then maybe on the development side, you had very, very positive things to say about India and the opportunity there. Can you talk about what you're seeing in China? Is it getting harder to develop there? Are you becoming a little bit more cautious given some of the dynamics we're seeing in some of the Tier 2, Tier 3 cities?

Arne Sorenson: Yes, the -- we looked at our first-quarter data. It's hard to get industry data that's real time, so I think it will be a little while before we can get industry data for the first quarter.

But somewhat surprisingly to me, we see inbound travel to the United States up 1 percent year-over-year. Now, put this in context, international arrivals to the United States account for about 5 percent of the U.S. lodging business. I was a bit surprised not to see a bit more decline.

When we tried to drill into those numbers to see what was coming from Europe, we see Europe actually may be minus 1 percent in terms of room nights, but essentially flattish. Which is again, it's better than I would have expected. I will confess that I've got maybe some cautionary language about whether that data is really hard, and how precise we can be or how confident we can be about its accuracy.

To the extent it's right, I think it's probably explained in part that the arrivals in Q1 are probably more business travel than they are leisure travel and as we get to summer we may see a bit more significant impact on that. I suspect another thing that's happening here is we are seeing relative strength in the developing world, probably offsetting a bit of the weakness and -- coming out of markets like Europe. So, stay tuned for that, but so far we see kind of flattish performance, which we are encouraged by.

You look at China, and I'll just give you a couple of figures. China was interesting; when you include Hong Kong in our China numbers, RevPAR for Q1 was up only 1.5 points. If you exclude Hong Kong and look really only at Mainland China, RevPAR was up 4.5 percent. All things considered, not bad, and with greater strength in markets like Shanghai, Beijing -- not awful, but not as strong as that number. And then in some markets in the South you've got a little bit more weakness driven probably more by supply than anything else.

So China is not by any means falling apart from an operational perspective. We continue to think we will see mid-single-digits, kind of RevPAR growth, for Mainland China for the year as a whole. Food and beverage performance is a little bit ahead of that, actually, so that's encouraging.

On the development side, I suspect we will sign fewer deals in China this year than we signed last year. I think we will see that our real estate partners in China will be a bit more cautious because of the relative health of the residential market, particularly in a number of cities in China.

And that may have some impact on openings a few years from now; may cause a little bit of delay on the hotels that are under development, but the hotels that are under construction should still perform well. And we continue to remain pretty bullish that this is a patch that China will get through and will return to probably pretty healthy growth at some point in time in the future.

Steven Kent, Goldman Sachs: Okay, thank you.

Thomas Allen, Morgan Stanley: So, focusing on Europe a little bit, you said in your prepared remarks that your penetration or your market share of worldwide rooms is around 4.5 percent, but I believe your exposure in Europe is anywhere from 1 percent -- maybe even less than 1 percent -- to 2 percent, depending on the data sources you use. So, you do have this history of doing bolt-on acquisitions to grow your presence in markets like the Protea deal in Africa.

Can you just talk about that in the context of Europe? And is there anything different about Europe than other markets that impact your decision?

Arne Sorenson: Yes, we did one deal with AC -- now, I think that was 2010, Carl?

Carl Berquist: 2011.

Arne Sorenson: Which was one of these bolt-on acquisitions which I talked about a bit ago. That was initially by us viewed primarily as a way to get into Spain with the very high quality of portfolios that Antonio Catalán had developed. And only later did we think about that as being a platform for growth in the United States and other markets around the world, which we have of course since launched. And that is going fabulously well. We could have 100 ACs in the development pipeline in the United States by the end of the year. Our developers may shudder to hear me say that because it puts some pressure on them, but the brand is doing extremely well.

When you look across Europe as a whole, though, there aren't many brands like that. There aren't many portfolios like that. You still have 65 percent to 70 percent, maybe, of all hotel rooms in Europe which are unbranded, and often they are true independents that are smaller, that are harder to convert. The Autograph brand has been one of the tools we've used to go after hotels like that, and we have succeeded really well with that. And I think as we look over the next foreseeable future, we think that with Autograph, with Moxy, with retrofitting towards the European market -- Courtyard and Residence Inn -- we've got brands that should set us up for accelerated organic growth across Europe.

And by mentioning those brands, I don't mean to take anything away from Ritz-Carlton and Marriott and Renaissance that we think will continue to grow, but we will not see a lot of new build full-service development in most European markets, at least not to the point of opening, I think, for still a good number of years. And so the opportunities are likely to be more in those initial limited-service brands.

Thomas Allen, Morgan Stanley: Thanks. And then for my follow-up, just switching topics altogether.

But so, on an earlier call today, one of the lodging REITs talked about the new 24-hour cancellation policies. I think you are leading the charge there. Can you just talk about what kind of opportunity that is and is that something that everyone needs to get on board to work, or is it something that just the larger guys can start pushing and it will work? Thanks.

Arne Sorenson: I would actually say we are not leading the charge there. We probably were the last one to the party. I can't say that without exception, but I think many of our principal competitors had already had in place a longer cancellation window than we had. Our cancellation window, until the first of this year, roughly -- I don't remember precisely the date it went effective -- was 6 PM the night of your stay. Which essentially means you can cancel until the absolute last minute. And particularly in a high occupancy market, that created greater risk of overbooking and harder to predict, harder to revenue-manage the hotels.

And so we followed most of our principal competitors and went to a 24-hour cancellation, which really means midnight the night before the day of arrival. I believe most of the industry is now at 24 hours or longer. And whether that continues to move or not, we'll have to see how that develops.

Thomas Allen, Morgan Stanley: Thank you.

Joel Simkins, Credit Suisse: Two quick questions. I guess the first would be, Arne, you've seen some peers jump into the hotel collections segment a little bit more aggressively. How do you continue to think about Autograph, given that you've got that up to, roughly, 80 plus hotels? Is this a several hundred unit opportunity over time?

And then just a second follow-up on the development front. One of your large competitors continues to think about a new way to solve for economy or really pure midscale lodging. Is this something you guys continue to evaluate as well?

Arne Sorenson: Yes, I'm not sure if I understand the second question, but let me start with the first and maybe I can ask you to rephrase the second. Autograph, we think, has still got great momentum. So we're at 80-ish today; I'm sure it's in our release the precise number here, someplace. Autograph, 46 plus 35, so 81.

And we continue to sign deals. I think the track record -- we hung out some of the statistics on the RevPAR increases that have occurred two years out and one year out from conversion. Those were total RevPAR growth numbers, but you look at the RevPAR index numbers and we're seeing double-digit increase in index for Autograph hotels after they've joined the Marriott portfolio.

I think in the pipeline we've got another 40 or so Autograph Hotels, so that's good growth well through the 100 mark. And I don't see any reason why that should slow. I think in fact as the track record continues to perform well and broadens, we will see more and more folks that step in. And the fact that other competitors are getting into this space is -- I guess we're flattered by -- hopefully we'll be able to continue to sell our track record, which will be that much further ahead because we've been doing it longer.

Now, what was your second question?

Joel Simkins, Credit Suisse: Yes, I think the second question is really I think you have Hilton and some other folks looking at ways to solve for a new franchising concept within pure really economy. I wouldn't say Moxy, certainly not AC, are really economy; those are more upper midscale, upscale. But is there a way to reimagine pure economy lodging as a starter entry point?

Arne Sorenson: Yes, I don't see us going -- we've got Fairfield, obviously, which is 800 or 900 hotels, I suppose, today. And Moxy, we're moving on now with tremendous speed. Moxy will be a smaller room than Fairfield, obviously more of a lifestyle design.

But I think rate wise it will trade -- in part because it's more urban, the rate will be higher than Fairfield, I think, that we ultimately put in the books. But there aren't that many Fairfields in urban markets, and so to some extent that's a little bit of an unfair comparison.

I don't see us in the near term trying to do something beneath that level. We've looked at it for many decades. You've obviously got some brands out there that are of size. By and large, because the rates and RevPAR are low in those markets, it's really hard to make much money as a franchisor without owning the real estate. And you are really working hard for a very small return, and it probably doesn't do that much for the brand portfolio strength either.

Joel Simkins, Credit Suisse: Thank you very much. Take care.

Joseph Greff, JP Morgan: I have two questions. One relates to your comments about looking at next year and expecting to see an acceleration in organic unit growth. If we just were to remove the word organic, would you still make that comment? And then when you think about that organic unit growth next year, is there a big difference in terms of the brands and the geographies driving that growth, relative to what you were expecting for 2015 and last year? And then I have another question.

Arne Sorenson: Well, that sounds like three, Joe. The first question, when you say if you remove the word organic, I think all that implies is will we increase our growth enough to offset Delta, which is 10,000 rooms this year, is obviously the only thing that we have that is predictable. And that's getting a little too precise for us at this point in time.

It may well be that organic growth grows by more than 10,000 rooms, with openings between 2015 and 2016. But bear with us a few quarters until we can really do the ground up work that we need to in order to give you a number for 2016 that is a bit more reliable. The second question?

Joseph Greff, JP Morgan: Well, I'll ask a second question, but I also was asking the brands and geographies that are driving that organic unit growth next year relative to this year and last year. Is there much of a difference?

Arne Sorenson: Shouldn't be much of a difference. I suspect we will continue to see good openings in the United States, in the 50 percent, 55 percent range, but good growth internationally as well.

Joseph Greff, JP Morgan: Great. And then (multiple speakers).

Arne Sorenson: Go ahead.

Joseph Greff, JP Morgan: And then with regard to your comments about the royalty rate opportunity. I get that, but on average, how many franchise rooms come up for renewal or relicensing?

Carl Berquist: We had 240 franchised hotels relicense in the first quarter, was it? Yes. So, what you see, Joe, is a lot of the big portfolios may trade and in fact those numbers are because a couple big portfolios traded. But there is, especially with the real estate market the way it is today, you are seeing hotels changing hands, and that drives a lot of the relicensing, which goes to the new rate. It also results in a property improvement program, so you get capital put into the properties as well.

Laura Paugh: And you've got a growing number of new hotels that are opening that are coming in at the higher rates.

Carl Berquist: Right.

Joseph Greff, JP Morgan: Thank you.

Vince Ciepiel, Cleveland Research Company: My first question is on the upper-upscale full-service category, just in general. Could you talk a little bit about the Marriott brand, specifically in North America? And what's the opportunity for that brand over the next few years? Have you been pleased with its performance and market share? And is bigger box, full-service an area where you can or even want to affect change and consider investing more resources?

Arne Sorenson: Yes, we've got great work underway with the Marriott brand, and we've had obviously more visible growth in the biggest boxes, whether that be the Gaylord Hotels we've added or some big Marriotts that we've added. So, we have opened obviously the Marriott Marquis in D.C. last year. We opened a big, 1,000-room JW Marriott in Austin during this first quarter of 2015. And we've got a number of those big boxes that are in the development pipeline and well under construction, so we'll be opening over the course of the next few years.

I think the biggest convention center hotels are strong performers. To some extent they are protected from cyclicality because of the long-term nature of much of their group business. They are quite profitable. Obviously, we are working constantly to make sure we are balanced in our delivery of great guest services and delivery of high profitability to our owners and we'll continue to be focused on that. But I think that by and large is an easier set of questions, in some respects, than the smaller, if you will, 300- to 500-room full-service hotels.

There I think we've got to make sure that we get the capital into the hotels and, particularly in urban markets, there is a challenge on profitability and around food and beverage, particularly if it depends on restaurants as opposed to group catering. And so we continue to look at ways of dealing with that. How do you provide simplicity around room service with good profitability enhancement? What's the right approach to lobbies and to restaurants? To what extent do you outsource restaurants? Those sorts of questions, I think, continue to take time from our operating team, and I think they've made good progress with it.

I think when you look at the RevPAR numbers, we're quite pleased with what we have accomplished with MHR. You'll note in our first quarter that the full-service RevPAR numbers were a bit lower than the limited-service RevPAR numbers. There are some reasons for that, but one that I think is probably worth noting, we have been aggressive in culling out contract business from our full-service hotels. Think of airline crews as maybe the primary example of that.

Contract business can often be at a significant discount to the average rate in a full-service hotel. Because of the way occupancy is moving, we have pushed that business out of many of our Marriott hotels.

In the first quarter, particularly given seasonality, that costs us a little bit in terms of RevPAR in higher demand quarters, like the second and third quarter particularly. We will see that that business gets replaced by rack rate business and will be pretty powerful in driving better performance. And so, those are signs of strength, I think, that should perform well for the full-service brands.

Vince Ciepiel, Cleveland Research Company: Great, thanks. And then just quickly on the fee guidance. You guys are not looking for 10 percent to 12 percent growth. You took it up $15 million, and then called out the $10 million headwind from delays and FX, so really a $25 million raise. Your improved incentive fee outlook seems to account for about $10 million of that, so could you help me with the last $15 million? Is it core growth? And how much of that maybe is Delta added in?

Carl Berquist: Sure. Well, when you look at it, it's Delta fees would be in there as well as the RevPAR growth in the second quarter. Or for the full year, I guess, is what you were looking at. Delta is about $12 million in the full year number.

Vince Ciepiel, Cleveland Research Company: Perfect, thanks.

Nikhil Bhalla, FBR: Just shifting back the focus to domestic a little bit here -- Washington, D.C.. Wanted to get your sense what was going on in 1Q. It looked like the downturn market maybe was a little bit softer compared to the D.C. Metro. And just your outlook for the balance of the year, what you think about D.C.. And the final question I have there is, if you could just remind us what is the percentage of D.C. and New York as opposed to your fees today? Thank you.

Arne Sorenson: Yes, I think we've got both of those things. You're right; downtown was modestly negative in Q1 and suburban was modestly positive. Those are for managed hotels, which tend to skew more full-service. If we look at our systemwide, which includes a lot of limited-service hotels, we end up with mid-single-digit positive for the greater Washington, D.C. market. So all things considered, not bad. A bit lower, certainly, than our average for the United States, but not a train wreck.

And I think we will see Q2 be better than Q1, maybe by a couple of points. I think that's driven as much by group dynamic as anything else. I don't have for you anything for Q3 and Q4, although my guess is that for the year as a whole we ought to see the same kind of performance that we saw in the first quarter. You're looking to 2016, I think, if I remember correctly, the group bookings for the city as a whole are reasonably good for 2016.

On the other side, it will be an election year, and in election years transient business tends to leave Washington to follow presidential candidates as they hit the hustings. Mix -- 4 percent to 5 percent of fees come out of D.C., and 4 percent to 4.5 percent come out of New York.

Nikhil Bhalla, FBR: Okay. And finally, just ask a quick follow-up question on government travel and government business. We knew that a couple of years ago that business was seeing significant headwinds. What are you seeing in that business now?

Arne Sorenson: We're seeing actually some growth in government business. I think we're coming out of that trough, which probably was the most severe in 2012 or 2013. I would think we're probably up in the high single-digits now. Remember, government business is not a huge piece, particularly in full-service hotels, any more. But we are building from that significantly lower base than we would have had many years before.

Carl Berquist: So, in 2014, government group made up about 1.5 percent of our full-service group business. Give you an idea.

Arne Sorenson: That's group.

Carl Berquist: Yes, that's group. And on transient, I think -- I don't have the transient.

Laura Paugh: In total it's about 4 percent of managed.

Carl Berquist: Yes, total, it's 4 percent.

Laura Paugh: It used to be around 7 percent, so it has not come back completely.

Nikhil Bhalla, FBR: Got it. Thank you very much.

David Loeb, Robert W. Baird & Company: Arne, I wonder if you could talk a little bit more about Delta and where you see that fitting in in the U.S. and globally. Basically, what's your thought about the brand positioning there?

Arne Sorenson: Well, I think maybe it's simplest to compare it to a couple of other brands. Look at Doubletree and look at Sheraton. They are different brands one from another, but they are full-service hotels with -- good quality hotels, but maybe with a little less stringency and the capital requirements for conversion that we might apply for the Marriott brand, for example, or the Renaissance brand. And they've been -- could be a good conversion vehicle for us. We'll see how that goes.

As we talked about Delta obviously upfront, we thought the value associated with that transaction for what we were getting in Canada was quite strong, and we're quite pleased with that even without any growth. But we think we'll have some growth that will deliver some good upside.

David Loeb, Robert W. Baird & Company: That's very helpful. And then, if I can follow on generally on franchising, you guys have been a little more open about franchising even your higher end brands. And I wonder if you had anything to say about the announcement, not from you guys, but I guess from an owner, that the Ritz-Carlton Chicago will be going from Four Seasons management to a franchised member of the Marriott system. That's the first time a Ritz has been franchised, right?

Arne Sorenson: That is, I believe -- no, we have a Ritz-Carlton in Montreal that has been franchised for many years. And I'm not exactly sure for the historic reasons for that one. Chicago has been one of those bizarre anomalies where the Ritz-Carlton in Chicago has always been part of the Four

Seasons Hotel company. And I think in part because of that history, it is now joining in a real way the Ritz-Carlton system. But we've never run the hotel, and this was a deal that seemed to be the best deal that worked for the owner and for us.

David Loeb, Robert W. Baird & Company: Does it give you free access to that market?

Arne Sorenson: I don't think it's likely to be much of a precedent. Anyhow, I talked over you, David. Sorry, what did I miss?

David Loeb, Robert W. Baird & Company: Yes, I'm sorry to interrupt you. Does it give you free access to that brand in the Chicago market now?

Arne Sorenson: The Ritz-Carlton in Chicago will be our Ritz-Carlton in downtown Chicago.

David Loeb, Robert W. Baird & Company: Okay, thank you.

Arne Sorenson: It will be part of our system.

Wes Golladay, RBC Capital Markets: You mentioned a potential slowdown in Texas and North Dakota developments. What is the exposure for Marriott of the 240,000 rooms currently in the pipeline?

Arne Sorenson: Oh, I don't know; it wouldn't be significant. We'll get that for you if you wouldn't mind calling back in, but I'm sure it's quite insignificant.

Wes Golladay, RBC Capital Markets: Okay. That's sufficient, thank you.

Bill Crow, Raymond James & Associates: Arne, you guys have done Gaylord, AC, Protea, Moxy, Delta -- how many more, similar situations internationally or in the U.S. has your team identified that you might pursue?

Arne Sorenson: That's a very artful way of putting that question. I wish there were more, and I wish we could sit here and tell you that we've got a stable of -- a handful of these things that are just waiting to be done at good, value-enhancing terms. But I don't think that would be fair. We obviously keep our eyes open and look around and we've got teams spread around the world that are doing their best to observe the opportunities. There are not that many, and there are even fewer that ever become available on the market. And most of these deals that we've done we were approached by the seller, in effect, and encouraged to take a look at. And we don't have anything like that that we can talk about now. But again, as we've said before, we'd love to do more of these deals if there were more.

Bill Crow, Raymond James & Associates: Okay. And then the follow-up real quick is, we heard yesterday from Starwood and they are trying to fix a number of things, including the relationship that they have with the owners. And we have recently seen some of their higher profile assets change flags. Do you sense an opportunity here to increase the number of conversions by taking advantage of maybe some challenges at other brands?

Arne Sorenson: We obviously -- I don't know what our conversion number was in Q1…

Laura Paugh: 20 percent.

Arne Sorenson: …20 percent. And we obviously are always interested in converting the right assets if the owner has the right to convert and if they work from a product perspective for our brands. And we will continue to look at whatever opportunities come to us if they meet those terms.

Bill Crow, Raymond James & Associates: All right, thank you.

Arne Sorenson: All right. Just thank you all for your time this morning. We appreciate your interest in Marriott and please reach out to us if we can answer any more of your questions, and come stay with us. Thank you.

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