Marriott International, Inc.
First Quarter 2010 Earnings Conference Call Transcript[1]
April 22, 2010

Operator: Welcome to the Marriott International first quarter 2010 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 Operating Officer, Mr. Arne Sorenson. Please go ahead sir.

Arne Sorenson: Thank you. Good morning, everyone. Welcome to our first quarter 2010 earnings conference call. Joining me today are Carl Berquist, our executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

As always, before we get into the discussion of our results, let me first remind everyone that many of our comments today are not historical facts and are considered forward looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward looking statements in the press release that we issued earlier this morning, along with our comments today, are effective only today, April 22, 2010, and will not be updated as actual events unfold. You can find definitions of the terms we refer to this morning in our earnings release on page 8. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

As many of you know today is the 40th anniversary of Earth Day. We've worked hard over the past several years to address environmental issues through our Spirit to Preserve program which addresses the environmental impact of our operations and new hotel development. Taking another step, just two weeks ago, our headquarters was certified LEED Gold by the U.S. Green Building Council. We've transformed our more than 30 year old building into one of the greenest headquarters in our industry and we're very proud of that.

Speaking of green, you may recall considerable discussion last year around "green shoots" in the economy. There were a few signs of improvement in the economy then. In this beautiful April,

[1] Not a verbatim transcript; extraneous material omitted.

while harvest season is still a ways off, not only do we see the green shoots in our first quarter results, but in many cases those shoots have started blooming.

Our first quarter worldwide RevPAR came in meaningfully better than we anticipated and earnings per share exceeded the high end of our expectations.

In January and February, North American RevPAR demonstrated solid improvement from recent trends, but March was even better. For example, for the Marriott brand in North America, company-operated hotel RevPAR declined 8.5 percent in the first period, declined 3.1 percent in the second period and rose 7.1 percent in the third period. And Ritz-Carlton is ramping even better. With their January down 2.4 percent, February up 7.6 percent, and March, which is in our second fiscal quarter, up 15.7 percent.

Corporate business travelers are returning to our hotels and in some numbers. For the Marriott brand, roomnights sold to corporate travelers rose 16 percent year-over-year in the first quarter. To give you a sense of the momentum, looking just at period 3, corporate roomnights rose 21 percent.

Premium rooms, including suites, club level and water views, sold well with roomnights up 17 percent for the quarter. Looking just at period 3, premium roomnights rose 28 percent.

For the Marriott brand, group business also showed dramatic improvement late in the quarter, largely due to better attendance. Group roomnights increased 1 percent in the first quarter but they increased 10 percent in period 3. While corporate business remained soft, association meeting attendance took off. Association roomnights increased 15 percent for the quarter and rose 50 percent in our third period.

On the leisure side, vacationers continued to check in during the quarter. For the Marriott brand in North America, weekend roomnights increased nearly 6 percent in the first quarter. Another good trend, particularly for gateway markets, was that more international travelers arrived in the U.S. with roomnights up 14 percent.

Overall, the pricing environment in North America is gradually improving. For the Marriott brand's company-operated hotels, room rates declined 8 percent in the quarter. But they got progressively better as the quarter went on. Year over year room rates declined nearly 14 percent in the first period, fell 7 percent in the second period and declined only 3 percent in the third period. Hotels are benefiting from stronger corporate transient business; increasing sales of suites, club level and other premium rooms; and rising prices at a few hotels. The recovery is clearly occurring faster than we anticipated.

Outside North America, results are also good. International RevPAR increased 1 percent in January, 2 percent in February, and 10 percent in March. As a reminder, the March numbers are in our fiscal second quarter.

Business in Europe and the U.K. continues to strengthen with improving business transient and group demand. Year to date through March, constant dollar RevPAR in London rose 16 percent and Paris was up 6 percent with stronger economic growth.

In Asia, occupancy rates rose over 12 percentage points in the first quarter, which include January and February, and rose 18 percent in March, dramatically exceeding our expectations. Stronger RevPAR in our hotels in China reflected better than expected domestic corporate demand and maturing of our newer hotels. For Marriott International, China is a very significant market. We have 47 hotels open as of the end of the quarter, with 13 more opening in the remainder of 2010 and 15 more in the pipeline.

In contrast, in the Middle East, constant dollar RevPAR fell 12 percent in the fiscal quarter and fell 8 percent in March, largely due to weak RevPAR in Dubai and Kuwait. However, Egypt continues to be a bright spot for the region, with company-operated hotel RevPAR growth of 13 percent for the quarter.

Caribbean performance was much like the U.S. in the first quarter with improving occupancies and lagging room rates but a much stronger March as a favorable economy helped fill resorts.

Our worldwide luxury business showed outstanding results. For the fiscal first quarter, which included January and February, Ritz-Carlton RevPAR rose 2 percent. And as I mentioned, in March, their RevPAR was up 17 percent. We are welcoming back corporate travelers, selling more club level rooms and suites, and booking more groups at Ritz-Carlton.

Across all our brands, with better than expected RevPAR, worldwide house profit margins were also good, as you saw in the press release. For our full service domestic hotels, the impact of last year's cancellation fees reduced house profit margins year over year by about 1 percentage point. Even as RevPAR begins to improve, we remain focused on costs.

I'm sure you've seen our higher RevPAR guidance in the earnings release. We are more bullish, to be sure, but we also offer the following cautions. Our booking window is extremely short which makes forecasting particularly difficult. Hotel demand is highly correlated to the economy, albeit with some delay, and we still have concern about the economy as unemployment is high. Clearly, some of our strong first quarter occupancy improvement is related to very easy comparisons to last year's economic paralysis. As we move through 2010, occupancy comparisons will get a bit tougher and we'll need to push room rates higher to achieve our guidance. With strong momentum in occupancy, we now expect average rates to start to show positive comparisons soon. At today's occupancy rates, hotel profitability has improved but some hotels may still have trouble making debt service. Hotel bankruptcies and foreclosures are increasing and could still disrupt business and profits at some hotels. But despite these cautions, our first quarter results give us much to be bullish about.

Now I'd like to turn it over to Carl Berquist to talk about our results for the quarter and our outlook for the year. Carl?

Carl Berquist: Thanks Arne.

As you saw this morning, we reported first quarter diluted earnings per share of 22 cents compared to our outlook of 15 to 21 cents per share. Our profits were about 4 cents better than the midpoint of our February outlook, with most of the upside from better than expected fee revenue and owned and leased hotel profits related to stronger RevPAR and property-level margins.

For our timeshare business, excluding the impact of contract cancellations, contract sales totaled $172 million during the quarter, a 10 percent increase over year ago levels. The business continues to offer discounts although we began to raise prices in the first quarter on select projects. Operating expenses were in check and closing efficiency rose from 7 percent in the 2009 first quarter to nearly 11 percent during the 2010 quarter. Timeshare profits were also helped by one project meeting its reportability threshold in the quarter. For our rental business, revenue per available villa rose 9 percent for the quarter, reflecting stronger leisure demand.

For the timeshare business, meaningful comparisons to the prior year require a bit of work. The timeshare numbers shown on the face of the P&L for the 2009 quarter are unadjusted for the impact of consolidating securitized loans which is required in 2010 under accounting rules. If the same rules had been in place last year, timeshare sales & service, net of direct costs, would have totaled $25 million for the 2009 first quarter compared to the $50 million this quarter.

For segment results, if the same rules had been in place last year, timeshare segment results would have totaled $5 million in the 2009 quarter compared to $25 million this quarter. The business is benefiting year over year from stronger development profits, rental revenue and efficiency improvements.

We have provided timeshare segment information that reflects the accounting change as if it had occurred at the beginning of 2009. All four quarters of 2009 are shown on pages A-14 through A-18 of the press release. These have been revised from similar schedules provided last quarter to include the interest expense associated with the securitized loans in the segment results.

For the total company, interest expense totaled $45 million for the 2010 quarter compared to $29 million a year ago. The consolidation of the securitized loans had a meaningful impact on this year over year comparison. Interest expense in the 2009 quarter would have been $16 million higher if the accounting rules had been in place last year, and our 2010 interest expense would have been flat to that quarter.

Gains and other income totaled $1 million in the quarter compared to $25 million a year ago. In the 2009 quarter, we repurchased senior notes resulting in a $21 million gain.

On the development front, we opened over 8,000 rooms during the quarter, signed 6,000 new rooms, and canceled 1,000 rooms from the pipeline. At quarter end, our pipeline totaled 95,000 rooms.

We are seeing growing owner interest in our Autograph Collection brand. Two hotels converted to our Autograph Collection during the first quarter, and five more properties have joined the collection since the end of the quarter. Looking forward, today we have another half dozen or so Autograph projects already signed or approved for conversion, and we are in early talks on more than 50 other conversion opportunities. In fact, it was the Autograph Collection's Grand Bohemian Hotel in Asheville, North Carolina, which joined in March, that took Marriott’s worldwide system to over 600,000 rooms.

As you know, hotel capital transactions are a major source of hotel conversions but few industry hotels changed hands in the first quarter. Even if hotels are upside-down or have debt service shortfalls, many lenders so far have demonstrated patience. There is plenty of interest in buying hotels and plenty of equity available, especially from Wall Street, but debt is only very slowly becoming available.

U.S. supply growth continues to slow. There is little debt available for new construction, particularly for full service hotels, and we don’t expect to see meaningful credit available in the near term. We expect supply growth will remain very low in the U.S. and even as lodging demand improves.

While our U.S. pipeline has declined, our pipeline outside the U.S. remains strong at about 35,000 rooms, the same level as in December 2008. By year end, we anticipate our international pipeline will be a bit higher despite opening over 12,000 international rooms in 2010. We expect our international footprint to continue to grow rapidly for the foreseeable future, particularly in Asia.

Now, let’s talk about our outlook.

As Arne mentioned, recent RevPAR trends have been quite encouraging. Strong bookings reinforce our outlook. For the domestic Marriott Hotels & Resorts brand, group revenue on the books for 2010 adjusted for last year’s cancellations and attrition is down only about two percent year over year, but has been improving since October. Group revenue on the books for 2010 was down five percent when we last talked just a few months ago.

In period 3, new group bookings for stays in the next 12 months rose for the first time in nearly 2 years. In addition, we saw groups who had already booked meetings for the future increase their room blocks in period 3 as attendance expectations continue to rise.

Even transient bookings, which are very short term, suggest further demand strengthening in the next few weeks.

Improving mix should continue to improve pricing through the rest of the year. Today, we are also raising benchmark prices in some markets where we see evidence of stronger demand.

In the second quarter, we expect RevPAR to remain strong. We believe systemwide hotels in North America will increase RevPAR by 4 to 6 percent; international hotels should increase systemwide RevPAR by 8 to 10 percent on a constant dollar basis; and worldwide RevPAR should grow by 5 to 7 percent. Given this growth, we would anticipate total fee revenue of $275 to $285 million in the second quarter.

For the timeshare business, we expect second quarter contract sales to total $175 to $185 million and anticipate timeshare sales and services, net of direct expenses, to total roughly $40 to $45 million. Given this, timeshare segment earnings should total $20 to $25 million.

Second quarter general and administrative expenses are expected to total approximately $150 million, a 10 percent increase over adjusted 2009 levels. In last year's second quarter, G&A benefited from a reversal of $8 million in incentive compensation as we eliminated bonuses for executives for the year.

Bottom line, we expect second quarter EPS at about 25 to 29 cents per share.

For the full year, we believe RevPAR for systemwide hotels in North America will increase by 3 to 6 percent with higher pricing in sight; RevPAR for international hotels should increase by 4 to 7 percent on a constant dollar basis; and global RevPAR should increase by 3 to 6 percent on a constant dollar basis. With unit growth of 25,000 to 30,000 rooms in 2010, full year fee revenue could total $1,145 to $1,175 million. This fee outlook is $55 to $65 million higher than the guidance we provided in February.

Our timeshare business is also expected to improve year over year with stronger contract sales and higher closing efficiency. Realized prices of our North American one-week intervals are expected to move modestly higher year over year. Our overhead remains well under control and we look forward to significant operating leverage as demand continues to improve.

Over half of our timeshare customers are paying cash for their one-week interval so our 2010 securitization will likely be smaller than in years past. We expect to sell notes in 2010 although the timing and amounts of such deals will depend on our sales pace. At present, we would expect only one note sale in 2010, probably in the fourth quarter.

Looking at the P&L, we expect the timeshare business could generate $185 to $195 million on the timeshare sales and services, net, line in 2010 and $95 to $105 million for timeshare segment earnings.

We expect Marriott's general and administrative and other expenses to increase to $650 to $660 million in 2010. Compared to last quarter's forecast, our higher G&A estimate is largely related to higher incentive compensation associated with the stronger operating results.

All in all, we believe earnings per share should total $0.95 to $1.05 in 2010.

Our fully diluted share count in the first quarter was 373 million shares and we've assumed 378 million shares for our full year 2010 guidance. This increase in diluted shares is largely due to the impact of a rising stock price, and, to a lesser extent, to an increase in anticipated stock option exercises.

We expect higher than normal exercises this year due to the expiration of options on about 5 million shares in October 2010 and February 2011. As a result, we're likely to see more Form 4 filings this year than what is typical.

Our balance sheet is in excellent shape and we are eager to seize opportunities in this industry. Total debt at quarter end stands at $3.3 billion including $1 billion of non-recourse bonds secured by sold timeshare mortgage notes. We reduced debt by roughly $800 million in 2009 and, excluding the impact of the consolidated timeshare securitizations, we expect to reduce debt by another $400 to $500 million in 2010. We are focused on selecting value-added investments to accelerate our growth. We expect to invest approximately $500 million for capital spending, loans, and equity slivers in 2010.

EBITDA is expected to total approximately $985 to $1,040 million this year. The changing timeshare accounting rules would have increased 2009 adjusted EBITDA by about $75 million. So even adjusting for this item, we are still expecting a modest increase in EBITDA in 2010.

We learned much and adapted during the recession, as difficult and painful as it was. This will benefit us greatly going forward. We've dramatically improved the efficiency of our hotels, timeshare business and corporate overhead; we've demonstrated the resilience of our management and franchise business model; and we've leveraged our brands and customer preference to both drive profitability and unit growth. We recognize that our associates brought us through this difficult time. We thank them for that and for the brighter days of this first quarter and look forward to those to come.

Even as we close a good quarter, we are often reminded that "success is never final". We recently conducted an investor survey that many of you were kind enough to participate in, and we're acting on your suggestions. Today, we've tried to simplify our earnings release. Not an easy task with all last year's restructuring charges and this year's timeshare accounting change. But we will continue the effort. Our prepared remarks were a bit shorter today than typical to allow more time for questions. Next quarter, we will publish our earnings press release on July 14 after the market closes and hold our earnings conference call on July 15 to give you more time to digest the news. And we're planning an analyst meeting on October 27 at the New York Marriott Marquis. We thank you for the suggestions and look forward to working with you in the future.

We'll take questions now.

Question-and-Answer Session

Felicia Hendrix – Barclays Capital: Hi, good morning, guys. No more 6.30 AM's, huh? [Laughter]

Arne Sorenson: Are you sad about that?

Felicia Hendrix – Barclays Capital: I think I was the loudest complainer. So Arne or Carl, in terms of your guidance and Carl, you touched on or I guess, Arne, you touched on this in your prepared remarks. You said that in order to get your RevPAR guidance, you need some increasing rate. But I was just wondering if you could give us some more granularity behind your guidance in terms of occupancy and ADR growth that's comprising that.

Arne Sorenson: Yeah. I mean, we put the sort of month-by-month statistics for MHR and Ritz-Carlton in the prepared remarks just so you get a sense of the way this thing seems to be building. We've now had really since December, I suppose, in the U.S. most brands reporting consistently and meaningfully higher occupancy. And with every month of that higher occupancy, we are seeing year-over-year reported rate in the books rate get closer and closer to breakeven.

And so as we sit here today, looking at our period 4 and looking at April and the way it's going for Ritz-Carlton, we use the March numbers for Ritz-Carlton which are in our second quarter. We are still a little bit south of last year in terms of rate, but we are getting near the breakeven point. And as a consequence, that's why we expect that we will cross over that rate line reasonably soon. We can't obviously identify a day or a month, but it wouldn't be surprising for it to happen in the second quarter.

I think the way we look at our full year guidance at plus 3 to 6 percent, we would estimate today that probably the full year rate is still down modestly from last year, but that occupancy is up sufficiently so that RevPAR as a whole is up into the 3 to 6 percent range.

Felicia Hendrix – Barclays Capital: Okay, that's helpful. And then Carl, you talked at the end of your prepared remarks about the CapEx spend and obviously some of that is obviously – you mentioned that in terms of investments over equity. If you look historically, obviously you spent more. So are there – Carl or Arne, I'm just wondering, as you're looking at the development landscape, which probably does – or just the investment landscape which probably does look very attractive. I'm just wondering when you think it's going to get more normalized or when more normalized investment could come to fruition.

Carl Berquist: Well, I think that's a good question. Right now, some of the things that drive that investment is conversions, opportunistic investments as it relates to transactions in the marketplace and the transactions through the first quarter, although you've seen a little pickup in transactions as the quarter went on, it’s still down substantially compared to normal times.

I think as you see those transactions increase, that will give us an opportunity to evaluate opportunities where we can really do value-added estimate – value-added investments and take advantage of that to help grow the business. And hopefully, that will happen as the year goes along.

Right now, as we said, we are anticipating total investments about $500 million. About $150 million to $200 million of that is CapEx, probably $50 million of that $150 million to $200 million is maintenance type CapEx. The other $300 million is those types of investments, but we stand ready to be opportunistic to take advantage of those.

Felicia Hendrix – Barclays Capital: Okay, great. And then just final question. On your incentive fees, do you guys have any sense when the owners who fall under the priority return formulas will be over their hurdles? Is it '11, is it '12, is it sooner?

Arne Sorenson: We don't – we can't give you much. Obviously, it's done on a hotel-by-hotel basis. You see the statistics for how many hotels we had paying incentive fees in the first quarter. We got a lot of hotels that are still quite a way short of their owner's priority in the United States. And as a consequence, we are into 2011 or 2012 in many cases before we will see that move. This year, I think the incentive management fee growth that we anticipate is going to largely be from hotels that are paying incentive fees now and we'll grow in what we earn from them with strengthening RevPAR and house profits, and the international growth, including the unit growth that we've added outside the United States over the last number of years.

The hotels that are not paying that are materially short of their owner's priority in the U.S., again, that's going to be a little stickier and will be a little longer coming back. But ultimately, obviously we look forward to all of those rooms getting back to their fee contribution that they saw at the last peak.

Felicia Hendrix – Barclays Capital: Great. Very helpful. Thanks a lot.

Bill Crow – Raymond James & Associates: Good morning, Arne and everybody. Let me follow up that last question. Does the increased optimism that you have for Marriott and for the industry, does that get you closer to restarting some sort of share repurchase program or accelerating timeshare development, some of the things that you put on the sidelines because of the environment?

Arne Sorenson: Yeah, in a sense I think you can look at the change in our expectations over the last quarter and say that it kind of moves everything up. The balance sheet is strengthening, we felt great about the way it came together last year with the debt reduction that we ultimately put in the bag of $800 million. But with operating cash flow going up, we think the balance sheet will strengthen probably faster than we anticipated, which will give us more opportunities.

As in years past, our priority with available capital we have is going to be to invest in growing our business. I think the likelihood there is all around the lodging business, not about the timeshare business. We are still rich with timeshare inventory and so there is little need or relevance about investing in the timeshare business for the foreseeable future. We'll see what comes up available from the lodging space and we could see some of that investing – I think Carl's capital spending numbers this year include a couple hundred million, which are essentially not committed and we anticipate could be opportunities that present themselves.

In terms of share repurchasing, we will have to see. We still don't have any guidance or expectation that we'd invite you to expect we will be buying back stock this year. We ought to see the balance sheet strengthen a little bit more, but the faster it strengthens, the more those become germane questions.

Bill Crow – Raymond James & Associates: And then if I could ask a two-part question on the luxury end of things, the Ritz-Carlton side, obviously the comps are extremely easy, especially demand comps right now. How is – how are the Ritz performing relative to 2008? That's the first part.

And then you talked about more consumers opting for upgraded rooms and I assume that would mean concierge level within the Ritz and if that's the case, have you started to bring back amenities that were cut out during the depth of the downturn?

Arne Sorenson: Yes, is that only two-part, Bill? [Laughter]

Bill Crow – Raymond James & Associates: I think so.

Arne Sorenson: Maybe a little bit more than that. And your question about Ritz-Carlton can apply to a lot – really lots of brands. Obviously, we feel great about the way RevPAR is building over the course of our first quarter and what we are seeing going into the second quarter.

The comparisons though are really easy. They are easiest for Ritz-Carlton and for every brand, even with RevPAR turning positive, we are a long way shy of where we were at peak in 2007. And probably our implied numbers on a full-year basis are down mid-to-high teens in RevPAR from peak times in 2007.

Good news in that is it leaves us with a lot of growth potential, even beyond what we've built into our guidance. Bad news of that is that means there is still pressure on lots of hotels in our system and as a consequence, we are doing everything we can to maintain the cost-cutting and cost efficiencies that we put in place the last couple of years.

Where we have higher occupancy in club floors, obviously that's going to have some impact on staffing in club lounges. But generically, we are not seeing a return of cost buildup in our hotels yet.

Bill Crow – Raymond James & Associates: Thank you, guys.

David Loeb – Robert W. Baird: Hi. First off to Felicia, she should try living in Mountain Time. Can you just repeat the date of the New York meeting? I wasn't writing fast enough.

Carl Berquist: October 27.

David Loeb – Robert W. Baird: 27th? Great, thanks.

Carl Berquist: At the Marriott Marquis.

David Loeb – Robert W. Baird: Go that part. Thank you very much. A couple of – I do have a couple of real questions. Your G&A guidance looks to be up pretty strongly. You've cited incentive comp expense. Is that – given your propensity towards cost control, that level of increase seems pretty big. Is there something else going on?

Carl Berquist: No. I think if you look at where we were at our previous guidance when we talked about it in February, we were up about 2 percent to 3 percent and we were expecting that to be normal wage increases and the normal types of items that you would expect that were not sustainable that got cut out of the previous year. The increase from that level to where you are seeing now is primarily incentive compensation that has gone back in.

Obviously, as you raise expectations as to how much profit you are going to drive to the bottom line, incentive compensation that is rewarded based on those returns needs to be increased likewise. So that's why you see the increase. There is really nothing else in there that would drive that – those numbers.

David Loeb – Robert W. Baird: – based on – go ahead.

Laura Paugh: Versus the prior year, there wasn't any senior management incentive compensation. So you are going off of zero.

David Loeb – Robert W. Baird: Okay. And is that booked later in the year?

Carl Berquist: The incentive compensation?

David Loeb – Robert W. Baird: Yes –

Carl Berquist: Yes, we booked – we actually booked throughout the year as the earnings are earned.

David Loeb – Robert W. Baird: I see.

Carl Berquist: The guidance for the full year has the full amount in.

David Loeb – Robert W. Baird: Because it – the first quarter increase was not that much. The second quarter guidance isn't that much. So I guess as you post better earnings growth in the back half of the year, you are expecting that to increase more?

Carl Berquist: Yes. I think the second quarter also had some comparable issues in there too.

Arne Sorenson: We would – we would take that – the comp ought to be fairly ratable by quarter, because it's driven really by our expectations…

Carl Berquist: On earnings…

Arne Sorenson: …for payout.

Carl Berquist: We had some deferred comp in the second quarter last year that, I think, affects some of the comparability.

Arne Sorenson: Yes.

Laura Paugh: We can talk about it some more if you'd like to give me a call we can go through each of the quarters and look at what was unusual in the '09 year by quarter.

David Loeb – Robert W. Baird: Okay, will do that. And then on the development pipeline, given that the pipeline is shrinking just a little bit, what's your – what are your thoughts on the prospects for new room additions in 2011?

Arne Sorenson: We don't have much in terms of guidance, but I would expect the opening of newly constructed hotels in 2011 will be lower, meaningfully lower in the U.S. than they were in 2010. The opening of total hotels into our system will still be – new hotels will still be robust in Asia.

In the U.S., I think it will increasingly depend on conversion activity which in turn is significantly driven by transaction activity. So we will have to see how the transactions step up. I think in this 2010, Carl talked about Autograph and the great response we've gotten from our partners to that. We'll see some good conversion activity this year and next year in that brand. Beyond that, I think a lot of it's going to depend on whether transaction pace steps up.

David Loeb – Robert W. Baird: Great. Thank you very much.

Ryan Meliker – Morgan Stanley: Good morning, guys. I just have a couple of quick questions for you. First of all, you mentioned that group revenue pace is tracking down about 2 percent, which is an improvement from February. Can you break out what the – what it is in terms of demand versus average daily rates?

Carl Berquist: Yes. I think that the room night is up about 1.5 to 1.7 percent, but the rate is down a little over 3 percent, I think, is what gets you to the minus 2. Or are you talking about group room pace?

Ryan Meliker – Morgan Stanley: No, no, that's helpful. That gives me – what I'm – what I was looking for. Can you tell – do you know or I don't know if you can disclose yet, but do we – do you see any material improvement in demand or rate as the year progresses or are we pretty consistent across the last three quarters of the year there?

Arne Sorenson: We are going to see group revenue up, I think, probably in the next couple of quarters and it will be kind of modest improvement in nights and a modest decline in rate. Now, that's anticipation, obviously. I want to see the way the groups ultimately come in and the size that they come in on.

We are seeing booking pace step up. I think we will see better pricing as the year goes along for new group business as we regain both expected occupancy and confidence around that. Obviously, that's delayed gratification because it takes a while for group business to ultimately show up in rates.

Ryan Meliker – Morgan Stanley: Got it. So given that expectation that it sounds like while group rates might improve on a sequential basis, they are probably still going to be in the red for the duration of the year. That means that to hit your guidance, you said you had that positive rate growth and you need to see substantial improvement in transient rates. Is that correct?

Arne Sorenson: Yes, it's improvement in transient volumes. So you got some mix shift that's going on, as well as improvement in pricing.

Ryan Meliker – Morgan Stanley: Okay. And then one other question as we think a little bit longer halt here. As you talked about the fact that majority of your RevPAR forecast is driven by demand growth and property-level margins seem to be continually challenged. You mentioned that and incentive fee business is going to be a long way off, which is usually an indicator that property-level NOIs really aren't recovering that quickly.

Have you thought about that? What's going to happen in terms of being able to push rate if your properties need significant amenity improvements or things along those lines when your owners really don't have the capital to really continue to invest in the properties?

Arne Sorenson: Yes.

Ryan Meliker – Morgan Stanley: Any color on how that's going to play out?

Arne Sorenson: Well, I mean, I think obviously the more RevPAR moves and the more we get some pricing power back. That's going to tend to start to relieve some of that pressure, but I think the pressure on the financial structure of a number of owned assets is fact of life that we are going to be with our partners wrestling with for the foreseeable future.

We've got a long way to go before a number of those deals are well, and so even if we moved our RevPAR expectations for the year by 4 or 5 points, we got a number of years still to work through it. I think we are talking with our owners, we are doing everything we can to make sure we prioritize the capital needs of the hotels and feel reasonably good about the most important pieces of that and feel like the portfolio is in a reasonably good shape, but it's – it will continue to be an area of significant focus.

Ryan Meliker – Morgan Stanley: All right.

Arne Sorenson: I want to quibble with one thing you said. I think the incentive fee point is important. We are – we will grow incentive fees with the unit growth and with the growth in RevPAR and with the growth in profits of the hotels that are already contributing incentive fees and there will be good leverage in that fee growth. But the only caution we are talking about there is the – a number of the hotels that are not paying incentive fees, it's going to be a while before some of those pay.

Ryan Meliker – Morgan Stanley: Right. That makes perfect sense. Thanks a lot.

Steve Kent – Goldman Sachs: Hi, good morning. Could we just talk a little bit more about timeshare and I was pleased to see the volumes pick up there? And maybe you could just talk about who you are selling to. Is it still existing owners, friends and family? How much of it is related to discounting? And then more broadly, Arne, over the years you've talked about refocusing MAR on return on invested capital, ROE, et cetera. Can you just talk about that now? It seems like a great opportunity to revisit that strategy and what kind of things you are doing to move that along.

Carl Berquist: Okay. Steve, I'll respond to you on the timeshare side and then Arne can talk about the ROIC. The – on timeshare, I think still 75 percent, 80 percent of our contract sales are on the traditional timeshare segment and the customer mix is pretty much still the same as it traditionally has been and probably 45 percent, 50 percent are coming from people that have a timeshare with us or have been referred to us by someone. So that mix is the normal mix that we are seeing there.

As far as the discounting goes, we are still doing some discounting. But we are also moving prices where – up where we see the opportunity to do so. So on the traditional timeshare side, there might be some selective discounting still taking place, but it's very selective and targeted whereas it's also happening where we are moving prices.

I think when you look at the timeshare business, you look at – we right-sided the business in 2009 and now that's going very strong for us. Our closing efficiency, as I mentioned, went from 7 percent to 11 percent. It's pretty dramatically really got the sales and marketing costs aligned with the volume that's going on.

So I think that's what you are seeing in the business. It's now being right-sized, it's being run at a very efficient manner. At the same time, our rental programs in the timeshare business of the villas, the inventory we have, has moved up. I think it was like 9 percent in the quarter. So we are also benefiting from that too as people continue to use their vacation.

So I think that’s – as you look at the timeshare, that's what you are seeing happening there.

Steve Kent – Goldman Sachs: Hey Carl, before I let you go, at one point you used to encourage people to use your financing by giving them extra-Marriott points, et cetera. Then you backed off of that. Where are you on that spectrum?

Carl Berquist: Yes, that's a good question. We are not incentivizing people to take the financing. Thus, our financing propensity is down in the low-40s, I believe, for the quarter and that compares to – a couple of years with this high 75 percent to 80 percent when we did incentivize people. We are watching that market. Right now, giving the – even though it's a very good market, the market has come back for securitizations. After you factor in the advance rates and those items, we don't see a need to do that.

So we continue to have 55 percent, 60 percent of our people pay cash. That works fine for us. But the financing is there if they want it and that works out to about 40 percent, 45 percent financing propensity. But from a return standpoint, we don't see the need to invest in those notes right now.

Steve Kent – Goldman Sachs: Okay, great.

Arne Sorenson: And then Steve, on the return question, I – the way you framed it is a pretty broad question. I mean, return on invested capital is a very primary measure for us. We would look at that much more than we would look at return on equity, in part just because of our share repurchase activity makes that equity – book equity look a little smaller than – and as a consequence, makes the returns unfairly high. So we focus on return on invested capital.

There is not much to report at the moment. It remains hugely important to us. But lodging business obviously has been hit, but its returns are quite a bit higher than the timeshare business. Timeshare returns have been absolutely walloped. They are clearly not acceptable where they are today.

At the same time, we have essentially turned off new investing in that business sometime ago with a view that what we ought to be doing is maximizing cash flow out of that business and right-sizing it both in terms of the cost structure and the capital structure. That's not something that's done overnight although the team down there has done a spectacular job at managing sales and marketing costs and dealing with the incentives and dealing with pricing so that we are getting closing percentages back up as Carl has talked about.

And so we now sit here in a position where we are optimistic we will see that cash flow continue to build and as it builds, we will undoubtedly get better returns out of that business, but we will also then think a little bit more about, okay, what does that mean for us a few years down the road.

We've got a lot of time available in the sense that we have plenty of inventory. So it's not as if we look down and see that we've got a decision to make in Q3 or Q4 about investing more capital. We think we've got most of the inventory we need for the next few years.

Steve Kent – Goldman Sachs: Okay, thanks.

Chris Woronka – Deutsche Banc: Hey, good morning, guys. Question on how you are looking at the health care costs going forward, especially with the new legislation. Can you just kind of maybe walk us through what percentage of hotel's cost base that is and what you guys are planning for?

Arne Sorenson: Yes. The – this is still very much an open question. In fact, we were doing internal town hall the other day and were asked by one of our executives about health care and the impact of the new legislation on us. And I think I and a number of my fellow leaders were almost speechless because there is still so much we don't know. I think the – there are a few categories that we're focused on.

One is the uninsured associates that we have and by and large, you should think of those people as being the invincible young, 25-year old associates who really don't have any health issues and they probably choose to save the employee portion of those expenses and go uncovered as opposed to be covered. This bill eventually will require those folks to have insurance, either that they sign under our program or they'll have to go get it from someplace else.

And we don't think the cost of that will be terribly significant. Spread across the system, it's tens of millions of dollars, not hundreds of millions of dollars. And the impact on margins in the year it happens, it could be that it's measurable, but we don't think it has a substantial impact to the profitability of hotels over the long term.

Beyond that, the questions that we've got and ultimately it's what the government is going to have to be focused on in terms of the regulatory work that needs to be done in order to implement this is around automatic enrollment and how that works.

So we make sure that we are not being required to provide coverage to associates who may be getting coverage through spouse's plans and other employers or vice versa. And we are going to have to look really carefully to make sure that the way that the exchanges are set up, it's not enticing our healthiest associates to go off and get cheaper coverage from someplace else, leaving us with a higher cost associate base.

I don't think those are issues, which are in any way, unique to Marriott. But they are issues that are really very, very important in terms of how the program works and we are trying to communicate with the government to make sure that they understand that for all of the shortcomings in health insurance we've had in the United States over the years, the bright spot is still employer-provided coverage and we've got to make sure we build on the power and success of that coverage as opposed to throw it out and make it less strong, because if we do that, the program is going to be worse.

Lastly, all of us, I think, are going to be interested to see whether or not this legislation changes the curve of health care cost growth. That's really about incentives to doctors, it's about reimbursement policies, it's about all of those sorts of things. We are hopeful, but I think remain to be comforted I suppose that we will see costs come down or at least the rate of growth come down.

Chris Woronka – Deutsche Banc: Okay, great. And then just shifting gears for a second, can you share with us how much the incentive fees out of Asia were up this quarter, assuming they were up?

Arne Sorenson: Do you guys have that? We may have to come back to you.

Laura Paugh: I don't have it by region. If you give me a call later today, I think we can pull something together.

Chris Woronka – Deutsche Banc: Okay. Very good. Thanks.

Joe Greff – JPMorgan: Good morning, everybody. Carl, you mentioned in your prepared remarks that you are raising prices in certain markets. One, can you clarify that that's proactively yield managing up rates, not seeing resulting rates benefit from a positive mix shift and can you just help us maybe understand which certain – which of these certain markets you are raising prices in or certain segments?

Carl Berquist: Sure. And to clarify, probably both of those are happening. You have mix shift obviously taking place and that has something to do with how the RevPAR will move, albeit it's not a big number in that RevPAR increase. It's probably pretty small right now. But over time, the mix shift will help.

But the prices I was talking about were rate prices and it – it's in select markets. I think the markets you would expect to be domestically would be New York, Washington, Boston, and then outside the U.S., Amsterdam, maybe London. And so it's the cities you think and as that mid-week strengthens, you get an opportunity and we are looking at it and we are moving it and see what happens.

Joe Greff – JPMorgan: Great. And then with respect to property-level operating expenses, how are you thinking about labor? Are you actually adding FTEs or do you anticipate adding a lot or is it really kind of just looking at hours per occupied room? How are you thinking about that as occupancy has come back and as you are thinking about getting rate?

Carl Berquist: Well, as occupancy comes back, obviously it does have a need to add and I would assume, at first it's going to be adding hours as it is, because people took back hours, but as big groups come in and as the big hotels get more and more occupancy and that moves up, then obviously at some point you are going to start adding people as well. But probably the first on a macro basis would be putting hours back in that were reduced during the downturn.

Arne Sorenson: And I think if you look at the way we've restructured these hotels in the last few years, we are more efficient in terms of total hours worked per occupied room. We are more efficient in terms of management compensation per occupied room. I think we ought to be able to maintain the hours per occupied room ratios that we've already set up. So when we talk about adding hours to our existing workforce or adding associates in some hotels, that's going to be driven with occupancy and it should not really be a significant cost creep, I think it will be very consistent with the revenue growth in the hotel.

At the same time, I think the management efficiencies that we've put in place should be very lasting. And so we shouldn’t generally see much manager growth as occupancy comes along.

Joe Greff – JPMorgan: Great. Thank you. And then with respect to the lodging development pipeline, as expected we are seeing the development pipeline shrink gradually over time. When do you anticipate the pipeline to flatten out, i.e. in other words, when do the net addition associated with international opportunities in Autograph offset sort of the net drawdown related to the U.S. hotels?

Arne Sorenson: Good question.

Carl Berquist: Yes. I don't know if we have a crystal ball as to exactly when the trend will start turning. I think a couple of things you have to think about there is, obviously domestically the capital markets for new-builds need to get a little more robust, especially on the limited service side or the rooms growth that will occur in that area. And then on the full service side, it's been domestically difficult to do new construction full service urban in the U.S. without doing any – part of a mixed use or something special there.

However, outside the U.S., I think it's been growing and we would expect, especially in Asia and parts of the Middle East and for that to continue to grow in the pipeline for new construction, as well as other properties coming in.

I think Autograph is a great opportunity as it relates to the conversions. As I mentioned earlier, we have seen tremendous interest in this so far. That interest continues to grow and that's domestic right now. And we think that opportunity is as big, maybe even bigger as we move it to Europe.

Joe Greff – JPMorgan: Great. And then my final, final question here. Within your full-year total fee revenue guidance, how much of that you tribute to incentive management fees?

Carl Berquist: I don't know if I have that right now.

Arne Sorenson: We took the midpoint up by $60 million or so. That's probably a third of it.

Joe Greff – JPMorgan: Got you. That's what I was looking for. Thanks, guys.

Arne Sorenson: Order of magnitude, obviously we are doing the best we can on a judgment basis. We are not changing quarter to quarter the budget of every hotel across the system.

Laura Paugh: Year-over-year, it puts you at about with incentive fees up modestly, say, 5 percent to 10 percent.

Joe Greff – JPMorgan: Excellent. Thanks, guys.

Jeffrey Donnelly – Wells Fargo: Hi, good morning, folks. First question, actually I'm not sure if you have it handy, but do you guys have any data available on the number of sellout nights that you had in the first quarter of 2010 versus where you were at the peak?

Arne Sorenson: No. More. You are saying '10 versus the peak?

Jeffrey Donnelly – Wells Fargo: Yes, versus 2007.

Arne Sorenson: Certainly more than 2009.

Jeffrey Donnelly – Wells Fargo: Well, that's an easy comp.

Arne Sorenson: It sure is.

Jeffrey Donnelly – Wells Fargo: Or actually maybe, Arne, I think in the past, like in late 2009 in fact, you were talking about the relationship between transient group rates where for a period of time, the transient rate was below the group rate and keeping pressure on group. Has that reversed and do you expect it will reverse this year?

Arne Sorenson: That's going to be interesting. I think what we've got going on in transient is fascinating. We talked in the prepared remarks about how corporate travelers were substantially up in terms of volume. The special corporate accounts and those are the negotiations we always talk about every fall with you, basically for most of those travelers, they have got pricing that was put in place last fall. And there is not a lot we can do about that pricing until we get to next year. So we will continue to suffer, if you will, even though volume is up significantly from rates which were, net on average, down a few points low-single digits versus the prior special corporate negotiations.

Group has a somewhat different dynamic in place. The bookings we will put in place now for group business this year, the short-term stuff, we will be increasingly experimenting with moving those rates up from what we would have quoted a year ago. At the same time, we've got clearly group business on the books that was booked last year, which is weaker. We also have some group business which was booked in prior years before the wheels came off and is stronger. Net-net, I don't think that the comparison will be that different from one segment to another.

Jeffrey Donnelly – Wells Fargo: One of the major airlines – I think it was Delta, actually made a statement the other day that the level of or volume of business travel activity was back at 2007 levels, which frankly I think directionally we all agree that it's improving, but it seems to be a pretty, I would say bold statement. Are you seeing a similar level of absolute demand right now at your hotel?

Arne Sorenson: I think we are getting closer. I don't think we are quite back to peak, but the – we are back in the – our third period, which is largely March for the Marriott brand. I think our occupancy was back in the 73 percent range and those are good numbers. But again, it takes a number of months of having that kind of strength and I think we still got some ground to go before we are back to peak occupancy levels.

Jeffrey Donnelly – Wells Fargo: Okay. Just I guess two last questions. On the cost front, is there some amount of occupancy gain that you think can be had without seeing an intended increase in expense or cost per occupied room? Is it 100 to 200 basis points or do you think that's not possible?

Arne Sorenson: I think it's a better assumption that at least the non-management workforce in a hotel is going to grow with occupancy. You can't have your housekeepers clean more rooms than they can clean in a day. And so if there are more occupied rooms, you are going to need more housekeepers, period. It doesn't necessarily require a huge change in the staffing of that hotel, but it's going to grow with occupancy.

Jeffrey Donnelly – Wells Fargo: And just the last one is – and I can't pronounce it, but what's the impact of the Icelandic volcano eruption on not only the U.S. domestic gateway cities, but also your European business?

Arne Sorenson: Still a little early to tell. Our experience with events like this is that the first few days are positive as travelers are trapped and can't get home and so they extend their stays in hotels. But that after the first few days as travelers get home, they are not replaced by new arrivers until such time as it becomes clear that those folks can safely take their trips. And so we will have to see.

There is chaos in Europe obviously, which they are trying now to start to sort out. If they can get it sorted out and travelers can look again and say, "You know what? I can go ahead and take my trip to Europe without worrying too much about coming back." They'll get back on the road and the impact won't be that significant. Net-net, I would expect it's likely to be a negative impact in Europe. How significant, we'll have to wait and see how things – how the dust settles here.

So we have come to the end of our hour, very much appreciate all of you participating. And as always, we encourage you to get on the road. We'd love to welcome you into our hotels. Safe travels to you all.

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