Marriott International, Inc.
Second Quarter 2015
Earnings Conference Call Transcript[1]
July 30, 2015

Operator: Welcome to the Marriott International second 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 second 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 music courtesy of our new global marketing partnership with Universal Music Group. UMG is the world's leader in music with a portfolio of top labels, including Capitol Music Group, Def Jam Recordings, and Island Records, among others. This partnership will enable us to better engage next generation experience seekers with Marriott Rewards member-only access to UMG events and concerts. British singer and songwriter, Ellie Goulding, helped launch this partnership last month with a live performance at the St. Pancras Renaissance London Hotel. Stay tuned for more exciting events coming up around the world.

Speaking of entertainment, as of the second quarter, we were the first hotel company to offer Netflix programing in our guest rooms. Our collaboration with Netflix reflects changing consumer preferences in how guests want to access and watch content while they travel. We expect to offer Netflix in more than 100 properties by the end of 2015.

Our Moxy brand is hitting the road and will be showcasing its model guest room around the country. Built for transport in a shipping container, the Moxy guest room mock-up made its debut at ALIS in LA earlier this year. Now, not only will it be on display, but it will also be the setting for a

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

new YouTube eight-part web series. Created by Marriott's Content Studio, the series will be hosted by comedian Taryn Southern, creator and star of "Taryn TV". She'll interview and gossip with guest celebrities, revealing their travel habits and quirky experiences on the road. So watch for this coming up on YouTube.

Before going further, 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, July 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.

Before we get into our second quarter results, I'd like to take a few minutes to talk about two industry questions. First, there has been a lot of discussion about the strength of demand and the pace of RevPAR growth. Undoubtedly, a slower pace of RevPAR growth is likely to occur at some point in North America as economic growth matures. Trees don't grow to the sky. In fact, you may recall at our analyst meeting last year that we started our 4-year RevPAR growth rate scenarios with a 4 percent handle.

While this slower pace is likely at some point, we think it is premature to call it today. Based on our data, we believe North American industry RevPAR growth will be solid for the foreseeable future, impacted quarter to quarter by calendar shifts and unusual events.

Our RevPAR results support this view. Our systemwide North American RevPAR rose 5.1 percent in April, 4.7 percent in May, and 6.4 percent in June. Early in the quarter our results were constrained by civil unrest in Baltimore and flooding in Texas.

Recent group bookings are very strong. North American full-service group business booked in the second quarter for all future periods rose over 8 percent year-over-year. In fact, meeting planners are worried about securing availability more than negotiating hard on rate.

You've heard a lot about the tough third quarter comparisons. Last year, our third quarter North American full-service group RevPAR was very strong benefitting from the favorable holiday pattern. As we started 2015, our group pace for this year's third quarter was down 2 percent, reflecting those tough comparisons. Since then, with strong short-term bookings, our third quarter pace has improved to plus 3 percent. Given this improving group business and our continued strong transient demand, we expect North America systemwide RevPAR will increase 4 to 6 percent for the third quarter.

Our fourth quarter should be even better. Group revenue pace for our full-service hotels for the fourth quarter is up 9 percent today. Given the tight supply of meeting space at many hotels, we would expect fewer last minute group bookings and, therefore, we expect our actual group revenue growth rate will be closer to 7 percent when the quarter is over. With this strength, we are expecting fourth quarter North America systemwide RevPAR to increase 5 to 7 percent, probably biased a bit to the upper end of the range. Net, net, our RevPAR expectations for 2015 are fundamentally unchanged from a quarter ago.

We expect 2016 will be solid as well. Already, roughly 55 percent of our expected group business is on the books and group revenue pace is up about 7 percent, having improved 3 percentage points in the last 12 months. It's a bit early for us to outline our RevPAR expectations for 2016, but STR is forecasting U.S. industry RevPAR to increase roughly 6 percent.

Supply is another common question about our industry. In the U.S., the modest pace of economic growth, combined with lender caution, has constrained lodging supply growth for the past five years. While construction starts are picking up, STR doesn't expect U.S. supply will reach even the historical average growth rate until 2017. But there is more to the story.

Today, new U.S. supply is largely in the limited-service category and focused in secondary and tertiary markets. In fact, of STR's "under construction, final planning or planning" U.S. pipeline in the U.S., over 55 percent of the new rooms are outside the top 25 markets. And many of these markets haven't seen significant supply growth in a very long time.

Development and ownership of new hotels is very diverse. Lodging Econometrics reports that over 900 unique owners are building hotels in the U.S. today, with nearly 85 percent of them controlling just a single project. Financing is easier and averaging 70 to 75 percent loan to value. Yet, developers remain very selective about the brands they choose. Lodging Econometrics also reports that Marriott International brands account for a quarter of the U.S. under construction pipeline, well ahead of our 11 percent existing room share.

This preference for strong brands is also revealed in recent conversion activity. While we typically expect to see a greater number of conversions in an economic downturn, high levels of U.S. conversions have persisted even as the economy recovered. Marriott has benefitted from this "flight to quality". The successful launch of the Autograph brand, followed more recently by industry copycat brands, reflects this reality. By the way, at quarter-end, we had 86 Autographs open worldwide with another 42 projects in our development pipeline, making it one of the fastest hotel brand launches ever. Looking ahead, we believe conversions to our system are likely to step up as our new Delta brand will focus on the conversion market. In just two months, we have already received inquiries regarding the possible conversion of more than 50 hotels in the U.S. and Canada. Including Delta, we expect to open roughly 55,000 rooms in 2015, reflecting roughly 8 percent gross room additions.

We believe our growing share of hotels is largely due to our strong brands and revenue platforms. In fact, guests booked roughly $12 billion of gross room reservations on Marriott.com globally in the last 12 months, with roughly $2 billion on Marriott mobile alone. With nearly 52 million members, Marriott Rewards puts us closer to our guests, rewards their loyalty and allows us to better understand their needs.

We are pleased with our record 250,000 room pipeline; but it's not just room volume that sets us apart from the competition. With our strong RevPAR index, concentration in higher room rate markets and brands, as well as profitable and consistent long-term contracts, our rooms generate better terms and greater value than implied by the room numbers alone.

Our effective royalty rate for our North American franchised hotels in the second quarter was 5.4 percent of gross room sales. While royalty rate increases only apply to new signings, relicenses or renewals, if we apply our current published stabilized royalty rates to the same top line, our effective franchise royalty rate would total 5.8 percent.

Even our newest brands are delivering attractive royalty rates. At contract stabilization, our more than 60 AC and Moxy hotels in the domestic pipeline should yield franchise royalties at 5.5 percent of room revenue.

On a year-to-date basis, we've signed roughly 40,000 managed and franchised rooms worldwide, including the acquisition of nearly 10,000 Delta rooms. With strong long-term contracts, we expect these new managed and franchised rooms worldwide will deliver over $85 million of annual stabilized fee revenue.

There are many ways to grow a hotel business. In the absence of a strong brand, one could drive rooms growth with significant capital contributions or fee concessions to owners. One could also employ short-term agreements; offer easy termination provisions; and accept poor quality conversion candidates. These approaches drive unit growth but not much value. Unfortunately, anecdotally, we are hearing that competitors most under pressure to drive unit growth are offering such deal concessions.

We don't intend to take that path. With our strong brands and a meaningful pipeline, over the next few years, we expect an increasing pace of unit openings at attractive economics. Solid RevPAR growth and increasing unit growth should continue to fuel improving returns on invested capital, growing cash flow and steady and significant returns to shareholders through dividends and share repurchases. From 2012 to 2014, we returned over $4 billion to shareholders. We now expect to return over $2 billion to shareholders in repurchases and dividends in 2015 alone. We are bullish about the future.

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

Carl Berquist: Thanks, Arne.

Our second quarter was strong. Lodging demand remained solid and constant dollar worldwide systemwide RevPAR increased 5.3 percent. Diluted earnings per share totaled $0.87, roughly 7 cents ahead of the midpoint of our guidance of $0.78 to $0.83.

Three cents of our outperformance came from better than expected general and administrative expenses, including a penny each for lower legal expenses, lower net development expenses and good overall cost control. In addition, we picked up about a penny from favorable G&A timing, offset by about a penny of transaction and transition costs for the Delta acquisition, which was not in our second quarter guidance. We booked a 9 cent gain on the redemption of our preferred equity stake in the Grande Lakes and Desert Ridge resorts, offset by an unfavorable 4 cents per share associated with anticipated losses on the sale of a hotel and undeveloped land.

Systemwide RevPAR in North America rose 5.4 percent and occupancy reached 78 percent. Group RevPAR rose roughly 6 percent with room rates up about 5 percent. For transient business, we continued to reduce the volume of special corporate business in favor of a greater volume of higher rated retail business.

Looking across the markets, we saw very strong systemwide RevPAR growth in the quarter at our hotels in Washington, D.C., New Orleans, Philadelphia, Chicago, Denver and San Francisco. In contrast, San Antonio RevPAR declined in the second quarter due to flooding and Baltimore experienced group and leisure cancellations.

In New York, our systemwide RevPAR increased 1 percent in the second quarter and New York's group pace for the third quarter improved. While room rates at full-service hotels in New York are compressed by limited-service additions, our systemwide occupancy in the city reached 90 percent in the second quarter.

D.C. had a great quarter with strong group business. Just 15 months after opening, the Washington Marriott Marquis is performing well with nearly 80 percent occupancy in the quarter. As predicted, the Marquis is helping to drive convention business to the city.

Outside North America, second quarter systemwide comparable RevPAR rose nearly 5 percent on a constant dollar basis. On an actual dollar basis, international RevPAR declined 5 percent year-over-year.

In the Caribbean and Latin America region, systemwide constant dollar RevPAR increased 5 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 third quarter comparison to last year's World Cup in Brazil.

In the Asia Pacific region, second quarter constant dollar systemwide RevPAR rose nearly 6 percent, with particular strength in Japan and India and easy comps in Thailand. Systemwide RevPAR in Mainland China increased more than 7 percent reflecting strong results in Shanghai. RevPAR in Hong Kong declined due to lower inbound China travel, while in South Korea, RevPAR declined due to the MERS outbreak. For the full year, we believe our Asia Pacific RevPAR will increase at a mid-single-digit rate.

In Europe, constant dollar RevPAR rose 4 percent. RevPAR increased due to high attendance at group events in Germany, strong demand in the U.K. provinces, and strong leisure demand in Spain. France remained weak, even with the low Euro, as leisure travelers selected more reasonably priced venues. Roomnights from U.S. travel to our European hotels increased 7 percent in the quarter with particular strength in Germany, Austria and Great Britain. We expect our Europe RevPAR to increase at a mid-single-digit growth rate for the full year.

In the Middle East and Africa, constant dollar RevPAR increased nearly 1 percent, constrained by the earlier start of Ramadan. We expect to see much stronger results in the third quarter as an offset. For the full year, we expect a mid-single-digit constant dollar RevPAR growth for this region as well.

Turning to margins… house profit margins at company-operated hotels in North America increased 80 basis points reflecting stronger pricing and lower utility costs. Worldwide house profit margins also increased 70 basis points.

Our house profit margins reflect the new accounting guidelines for the lodging industry, which require that service charges be included in property revenue. Excluding the impact of this accounting change, we estimate our North America house profit margins would have improved 110 basis points in the second quarter.

Base fees rose 9 percent in the quarter reflecting higher managed hotel RevPAR, higher food and beverage sales, and unit growth. In addition, a limited-service portfolio recognized $5 million of deferred base fees in the quarter.

As expected, incentive fees were flat in the quarter reflecting roughly $5 million of lower incentive fees from a few full-service hotels under renovation, a $2 million lower fee due to a shift in timing of fee recognition at one resort, and a $4 million negative impact from foreign exchange. Incentive fees were also constrained by weak results in South Korea and Hong Kong. In contrast, incentive fees for North American limited-service hotels doubled in the quarter, with particular strength in the Courtyard brand. With the completion of a public space and rooms renovation program over the past five years, pruning of poorly positioned properties and strong demand, over 60 percent of domestic managed Courtyard hotels paid incentive fees in the second quarter compared to 35 percent in the year-ago quarter.

Worldwide, 59 percent of our managed hotels paid incentive fees in the quarter compared to 45 percent in the year-ago quarter. In North America alone, 55 percent of managed hotels paid incentive fees compared to 32 percent in the year-ago period.

Franchise fees increased 14 percent in the quarter. Most of the improvement was due to unit growth, RevPAR improvement and ramping royalty rates. We also saw higher royalty fees and relicensing fees associated with hotel transactions and contract renewals. With a robust hotel resale market in North America, we relicensed over 75 U.S. franchised hotels during the quarter. In most cases, the new agreements reflect higher stabilized royalty rates, and regularly include a commitment to make property improvements. In the last 12 months, we estimate owners of North America franchised hotels have committed to nearly $1 billion in property improvement programs.

Owned, leased, and other revenue, net of expenses, totaled $60 million in the quarter compared to $70 million in the prior year. Results reflected the renovation of the Charlotte City Center Marriott, pre-opening costs for the New York EDITION and lower residential branding fees.

Depreciation and amortization totaled $32 million in the quarter compared to $47 million in the prior year. You may recall that we booked a $15 million impairment in the prior year.

General and administrative expenses declined from the prior year largely due to an easy comparison to last year's $7 million revaluation of our Venezuelan Bolivar exposure.

Our preferred equity stake in our Grande Lakes and Desert Ridge hotels was redeemed in the second quarter, yielding proceeds of roughly $120 million and a gain of $41 million. We also recorded a loss of $22 million on the pending disposition of a hotel and the sale of some land that will be developed as a hotel project. We expect roughly $100 million in proceeds from these two transactions sometime in the next 12 months.

Foreign exchange reduced our pretax income in the second quarter by roughly $9 million, largely in fee revenue. For the full year, we expect fx will reduce our pretax income by roughly $30 million. These amounts do not reflect the impact of exchange rates on travel trends.

For Marriott International, our adjusted operating income margin in the second quarter increased from 47 to 50 percent. We repurchased over 9 million shares during the quarter for nearly $715 million. Our fully diluted weighted average share count in the quarter was 7 percent lower than in the prior year and over 25 percent lower than five years ago.

As Arne mentioned, for the third quarter, we expect worldwide constant dollar RevPAR will increase 4 to 6 percent. We expect total fees will increase roughly 5 to 7 percent with incentive fees likely to increase at a low teens rate in the seasonally slow third quarter. You may recall that last year's third quarter included $15 million of recognized deferred base fees and $9 million of franchise relicensing fees.

We expect our owned, leased and other results in the third quarter will total $50 to $55 million. Our renovation of the Charlotte City Center Marriott and lower termination fees year-over-year should constrain growth in the quarter.

G&A expenses in the third quarter should decline modestly year-over-year with lower legal costs and an easy comparison for foreign exchange. Last year's third quarter reflected $4 million of unfavorable fx due primarily to the devaluation of the Venezuelan Bolivar.

Turning to the full year, compared to our prior guidance, we've tightened the range of RevPAR growth as we are already half way through the year. With 5 ½ to 6 ½ percent constant dollar

RevPAR growth, we expect our fee revenue will increase 10 to 11 percent. We've tweaked our full year fee revenue estimate a bit from our prior guidance due to the tightened RevPAR range, unfavorable foreign exchange and more modest incentive fee growth in Hong Kong and South Korea.

We've improved our estimate for depreciation and amortization from our prior guidance by about $10 million due to a refinement of our Protea and Delta purchase price allocation estimates and lower depreciation from assets held for sale.

We expect our full year general and administrative expenses will total $630 to $640 million, a roughly 3 to 4 percent decline year-over-year. Compared to our prior full year guidance, our lower estimate for G&A reflects lower legal and net development expenses and better overall cost control. Partially offsetting these savings, is roughly $10 million of transaction and transition costs for the Delta acquisition, which was not previously in our guidance.

All in all, we expect fully diluted EPS will total $3.10 to $3.18 in 2015. Compared to our prior guidance, we have included the 5 cents of net gains booked in the second quarter offset by the 2 cents of Delta transaction and transition costs for the full year.

We expect adjusted EBITDA will increase 13 to 15 percent for 2015. Investment spending could total $600 to $800 million, including about $140 million in maintenance spending and the $135 million for the Delta acquisition. We will remain disciplined in our approach to capital investments and share repurchases. We've already recycled more than $750 million from asset sales and loan repayments to date in 2015, including the redemption of our preferred equity stake in Grande Lakes and Desert Ridge, and the sales of The Miami Beach EDITION, The New York EDITION, and a Courtyard in Paris. Included in these year-to-date proceeds is roughly $40 million from the redemption of a preferred equity stake in another hotel that we received just this week. We expect to return at least $2 billion to shareholders through share repurchases and dividends this year.

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.

Questions and Answer Session:

Robin Farley - UBS: In your outlook you talked about cash return to shareholders of $2 billion, which is up by about $250 million from last quarter, but your EBITDA guidance is actually down a little bit. So I am wondering where the sort of incremental $250 plus million, was that maybe an acquisition you had looked at doing that you're not doing now and so that cash ends up going to shareholders or kind of what's the delta there?

Carl T. Berquist: I think part of it is, Robin, the redemption of some of these preferred stakes that we have in hotels that are occurring this year as well as the $100 million that we have on the market right now for the land and the hotel that we're doing. And we think our stock is a 'buy' right now, so we want to get out there and buy it.

Robin Farley - UBS: Okay, great, that's helpful. And then just for my follow-up, just to clarify, you have EBITDA lower at both ends, RevPAR is being raised at the bottom and lowered at the top but EBITDA is lower at both ends, is that mostly the Hong Kong and South Korea fee revenue that makes the EBITDA not as favorable as the RevPAR changes?

Arne M. Sorenson: Absolutely, it's the international markets, it's Seoul and Hong Kong would be the two most significant. Both are big incentive fee contributing hotels for us in those markets. And then a little bit of foreign exchange impact around the world would be the two biggest things on fees. Obviously when you get to the EBITDA calculation, you've got a bunch of adjustments going in different directions including the building in now for the first time of $10 million or so of Delta transaction and transition costs which are rolled into that G&A number.

Smedes Rose - Citi: I wanted to ask you just a little more on potential acquisition activity, I'm not talking about Starwood but more thinking about things like Delta and Protea, and Delta seems like it's really more of a conversion vehicle for you and Protea was more about establishing a footprint in an area where you were underrepresented, and as you look forward, do you think you need more conversion brands potentially in the limited-service or midscale arena? Or are you more interested in kind of locking down your footprint maybe outside of the U.S. more aggressively?

Arne M. Sorenson: The way you framed the question, I'd probably take option B over option A, but in some respects it's obviously a theoretical question. Deals become available in the market with sort of a certain definition, and as we've talked about before, I think Delta and Protea and Gaylord, AC, I think all of them have some similarities in that we found them to be pretty compelling financial propositions with acquisition prices sort of in 8 to 10 times fee range, something like that, within a short period after closing and accretive to us therefore from a value perspective.

I think when we looked at Protea, we were expanding into a part of Africa where we really didn't have presence and we found not just a portfolio of great hotels but we found a collection of good leaders down there who could grow our business in Sub-Saharan Africa. I think in the abstract we wouldn't have been necessarily all that eager to add another brand but would've loved to do the growth with the brands we already had, but of course it came with another brand and that brand had strength and everybody is going to keep it.

When you look at Delta, it was really sort of a twofer. I think the way we underwrited that deal was as a way of getting an existing portfolio of hotels, getting a greater strength in Canada which is obviously both a strong market in its own right and a great contributing market to travel to the United States, back and forth, and the deal sort of stood on its own from that perspective. I think in the months since we've closed now, just three months, we've been pleased – we're hopeful for this but we've been pleased to see that there's a strong appetite from our partners including in the United States to explore growing the Delta brand with us here. And so we think it will add a sort of extra piece of value to us as we go forward.

I don't think that we are particularly looking for additional conversion brands, whether that be in the upscale space or other segments of the marketplace, and I think in some respects we would continue to say that our brand lineup is reasonably complete. We think we've got the fullest sets of both lifestyle and traditional brands in the industry and they are all performing quite well with good momentum. But we'll continue to kick all the tires that drive by.

Smedes Rose - Citi: Okay. Can I just ask too, what was the share count at the end of the quarter?

Carl T. Berquist: Common shares outstanding was 267.3 million shares, and then you have about 4.9 million of dilution, so diluted shares was 272.2 million.

Steven Kent - Goldman Sachs: So a couple of questions. Can you first talk about your full-service RevPAR growth? It seems to be underperforming your select service RevPAR growth. Just some thoughts whether that's some part of the cycle or whether that's something to do with the brands? And then the second question is, you noted in your opening comments that RevPAR will be solid for the balance of 2015 based on some data, and I was just wondering what that data is, especially because it seems like the last-minute traveler is really the one who's seen the street pushing the rates pretty recently.

Arne M. Sorenson: So let's take those in order. I think on the full-service RevPAR question, I would not take either of your suggested answers. I don't think it has much to do with our brands and I don't think it really has much to do with the cycle. I think you look at full-service hotels and you've got two things that are going on. I think the most significant is renovations. We had a number of quite substantial full-service hotels, big hotels that were under renovation in the quarter, probably had 0.5 point to 1 point of RevPAR impact, maybe something like that from those hotels alone, and we think those renovation comparisons will now get meaningfully easier in Q3 and by and large disappear as a headwind in Q4.

And I think the second thing is, obviously New York is something we're all watching. It is the weakest big market in New York. I think it does tend to contribute a bit more to the full-service numbers than others. And so we see full-service performance. Yes, you're right, it's lower in the quarter than the limited-service hotels but we think it's going to come back as we get through the renovations piece and go through to get to the other demand points, which is a good way of transitioning to your second question.

The data points that we would point you to are the ones that were in the prepared script primarily, and that is, group bookings for Q3, group bookings for Q4, group bookings for 2016 and when you look at also the strength of transient demand which has been steady throughout and of course transient bookings, you can't see much when you go past 30 to 60 days particularly with business travel because it's relatively short-term booking. The near-term stuff looks quite good and we'd expect transient pace to continue pretty well.

Felicia Hendrix - Barclays Capital: Arne, you've been bullish for some time now looking back even at points when we were all surprised by that. So now, as you look – and your comments at the beginning of your prepared remarks were crystal clear, as you look towards the rest of the year and into next year, what has changed since what you thought what happen early in the year in 2015, if you could just talk about that for a moment?

Arne M. Sorenson: I said our perspective really has not changed fundamentally since a quarter ago or even two quarters ago. I think we've got some apprehension as a marketplace, in part maybe driven by the fact that we're in the sixth year of a strong lodging recovery. I think all of us kind of wonder how long can it last and we're constantly looking for clues that maybe we're reaching a point where we can somehow say that we're transitioning to a different phase, and I understand that.

In many respects we look at the same questions and we ask the same questions here. We don't see evidence that would suggest that we're entering a different phase of the cycle. We see supply growth continuing to be low. We see demand growth continuing to be high. When you look at group business, when you look at pricing power, all of those things look good.

And to be fair, I am not necessarily sitting here saying that RevPAR numbers that the industry reported last year or that Marriott reported in 2014 are the numbers that we'll get in 2015 or that we'll get in 2016, but I think we will see a solid mid to high mid-single-digit RevPAR growth for comp store sales in the United States extending for some period of time. And when you think about the way that works in our model with good solid unit growth because of the strength of our brands, we will continue to produce an extraordinary amount of cash which can be invested back into our business or can be returned back to the shareholders. And I think that will continue to drive great cash flow growth, I think it will drive great growth in returns, I think it will drive a great growth in earnings per share. And that's what causes us to say we remain pretty bullish about what's to come.

Felicia Hendrix - Barclays Capital: Thank you for that. And for my follow-up, in June, just totally changing gears for a moment, in June you announced the partnership with TripAdvisor. I was just wondering if you could talk about the thought process that brought you to signing that deal and are there other opportunities in the OTA space or the non-traditional lodging space or non-traditional booking space that you see.

Arne M. Sorenson: We've got a lot of respect for TripAdvisor. They have built a platform for customer reviews that has tremendous strength and obviously a broad application for hotels around the world. And we have been in a bit of a mating dance with them for some period of time, sort of feeling each other out and trying to figure out how the partnership would work between us. And what we found and ultimately caused us to do the deal with them was a partnership that was meaningfully more constructive for us than some of the other relationships that we have out there in terms of ability to control our inventory, in terms of customer data, in terms of ability to continue to offer specials or advantages within our tent of Rewards customers, and the cost of the reservations. So all of those things let us to conclude that TripAdvisor would be a great partner and we were really excited to get that deal done and to launch it and look forward to the way that it proceeds.

Felicia Hendrix - Barclays Capital: And then just as far as anything else you could do in that space?

Arne M. Sorenson: Nothing else that we would talk about at the moment.

Harry Curtis - Nomura Securities: A couple of follow-ups. At quarter end, am I correct in calculating that the net debt ratio was around 2x and where would you expect it to be by year-end?

Carl T. Berquist: When you calculate that, Harry, you need to throw in the leases and some other things as far as the rating agencies are. So we kind of look at an adjusted debt to an adjusted EBITDA and that when you throw in the leases, guarantees, some other things there, we're getting closer to 3x and we try to manage right around that 3x. Obviously it's not exact, so sometimes we're a little under that, sometimes we're a little over that, but we kind of target that. That keeps us in a solid investment grade rating. And so we'll manage that debt capacity relative to about 3x, but that 3x is adjusted for leases and guarantees.

Harry Curtis - Nomura Securities: Okay. Then in a somewhat related question, you've given guidance for total investment spend of $600 million to $800 million. Backing out maintenance and the acquisition, that leaves about $425 million in additional investment spend. Where do you think you're going to be based on the pace that you are at now by the end of 2015?

Carl T. Berquist: I think we'll be in that range. I think that range is still good range. I can't fine-tune it any more than that right now. It's still – we're only in the midyear right now, but as we look out at our capital commitments over the next six months as well as we continue to grow our pipeline, I think that's still a good number to hold to, that $600 million to $800 million.

Arne M. Sorenson: Harry, I don't have the precise numbers in front of me, but I would guess that of that $600 million to $800 million, 75 percent to 80 percent, maybe even higher, is identified. So if you're getting at what's the likelihood that we're going to come in a few hundred million dollars less than that range, I wouldn't put much likelihood on that.

Harry Curtis - Nomura Securities: Okay, that's exactly where I was going. And just the last part of that is, what are the biggest chunks of that additional investment spend?

Arne M. Sorenson: Carl has maybe got a list here but we are renovating top to bottom a Marriott hotel in Charlotte, we've just completed renovating top to bottom a Renaissance Hotel in the Dominican Republic, we have of course completed the construction of the EDITION hotels which is already done but was included in our first couple of quarters, we've got some technology projects which are in there and obviously technology spending is not what we think of first but we're probably doing $100 million plus of that in the year.

Carl T. Berquist: Building a couple of hotels down in Brazil…

Arne M. Sorenson: We're building a couple of hotels down in Brazil, we'll open a Courtyard Residence Inn in time for the Olympics next year, so that money is going out.

Laura E. Paugh: And then we've got some key money and some loan commitments…

Carl T. Berquist: So we have a few loan commitments that will probably fund later in the year.

Arne M. Sorenson: Those sorts of things.

Bill Crow - Raymond James: Arne, there was a report out by a large corporate travel and expense management company looking at the sharing economy, I think everybody has probably asked the Airbnb question in a variety of ways, but the study indicated that corporate or business related travel bookings on Airbnb increased like 143 percent from one quarter to the next this year, and my question is not just how much are we losing share because it gets very small at this point, but as you talk to your corporate customers, can you tell us anything about the adoption of hotel alternatives at the corporate level which I think that's what we're all trying to gauge? My follow-up to that would be that on a call last week, one of the REITs suggested that the brands are willing to renegotiate some of the occupancy thresholds for reimbursement of Rewards points in stays, and is it possible that that would have a incrementally positive impact on larger markets next year or whenever that happens?

Arne M. Sorenson: I'm not sure if I totally understand what the second point was. Obviously let me talk about that first and I'll get to Airbnb and the sharing economy. When you look at redemption rates, so that is Marriott Rewards or our competitor's equivalent, members ultimately cashing in their points for free stays at hotels, there are a number of complexities in the way those redemption rates work. They vary a little bit I think from company to company but there are some trends which are important obviously in a rising rate market which we've had the last five or six years. I think many platforms have seen that the amount of points that are needed to redeem in a like for like hotel probably need to go up a little bit because the rates have gone up and therefore the cash that needs to be distributed from the program to the hotel owner where the redemption occurred needs to be a bit higher.

The other thing is, you've got different levels of redemption depending on the occupancy at a hotel. So the theory has been, if that redemption is displacing likely rack rate guest that would be available from the open market to pay for that room, the hotel owner ought to get a bit more than if the hotel was relatively empty and had rooms that were going to go down dark over the course of the night.

We have changed some of those formulas in part because we saw that there was a little bit too much sort of internal gaming in the system and we wanted to make sure that we were benefiting our customers as well as giving fair compensation to our hotel owners. And so there is some conversation around the fine points of that.

I don't expect that changes that will be implemented further will likely be material in responding to something like the sharing economy. Obviously we are totally committed to making the Rewards program continue to be the strongest and most preferred loyalty program in the industry and that is about delivering value to our customers which we're going to continue to do but we want to make sure we do that in the way that our hotel owning partners understand to get the benefit of that.

When you get to the sharing economy, I think you look at the increase quarter-over-quarter or year-over-year in business travel. To some extent that is still the law of small numbers. Overwhelmingly in this space you're talking about leisure travel, overwhelmingly you're talking about travel which is at relatively lower rates than would be available in a traditional hotel. And so while there are some business travelers, probably particularly younger business travelers who use these kinds of platforms for their business travel, they are still the exception rather than the rule.

There's a lot we don't know for certainty and we'll watch, see the way this develops. Airbnb obviously gets a lot of attention for a reason. They've grown quite quickly and I think in many respects they are sort of a captivating idea. On the positive side we think it's quite good that Airbnb seems to be drawing travelers into the traveling marketplace sooner than they might otherwise be doing based on cost and that's partly a generational thing, that's partly a wealth demographic thing, but we are seeing more and more travelers hit the road both in the United States and around the world and that's a good thing and we think ultimately they are likely in some meaningful percentages to stay not just at Airbnb facilities but to stay in traditional hotels and we'll obviously compete to get as many of those as we can.

When we listen to our special corporate and significant corporate customers, I think usually what we hear is that they would like to make sure that their people when they're traveling are taken care of and that the risk profile is acceptable to them, and there are attractive features of hotels when it comes to those kinds of considerations, whether that be life safety issues, whether that be security issues, whether that's simply the ability to find their people.

I think there are some though where folks say, okay, actually if we can save money on this and if our people want it, maybe we'll do some of that and so that's why you start to see some of his year-over-year growth. And again, we'll watch it, we don't think it's a significant factor in terms of impacting our business today and are optimistic that it won't become one but we'll have to watch it and see.

Joseph Greff - J. P. Morgan: I have two questions. You mentioned your fee and EBITDA guidance came down primarily because of the Seoul and the Hong Kong hotels as well as some incremental adverse fx, so does that imply in the second half that your U.S. fees or U.S. related EBITDA relative to three months ago is actually flat to up?

Arne M. Sorenson: It would be flattish, it might be down a tad, but not in terms of different expectations. Obviously we came in today with RevPAR numbers which are what, right about at the bottom quarter of the guidance we gave you a quarter ago for Q2. So we said 5 percent to 7 percent and we ended up at 5.4 percent or 5.3 percent depending on which measure you're looking at. So that has some impact on the numbers but it's really not significant. That's why we say the expectations are essentially the same.

Carl T. Berquist: And you know when you look at the percentage of the total EBITDA, it was more fine-tuning for those kind of things than anything else, Joe.

Joseph Greff - J. P. Morgan: Okay. And then on the capital return front, you obviously bought back more stock in the quarter than in recent quarters and you obviously upped your, at least capital return target to $2 billion plus, for you to mimic second half capital return equal to the first half, what would have to go right, would that just be a lot more asset recycling and things of that nature or how do you view potential for that in general?

Carl T. Berquist: I think the one thing you kind of look at in the first half, we recycled about $750 million worth of assets in the first half and we don't have that program for the second half. Our wagon is starting to go a little empty on assets to sell and to recycle. So I think it would be difficult to have that same level during the second half relative to what we did in the first half.

Shaun Kelley - Bank of America/Merrill Lynch: Arne, we've heard some of the bigger owners in this space start to talk a little bit I think more aggressively about transitioning some of their hotels from managed to franchise and I'm just curious sitting there as the manager or the brand manager of a number of these types of hotels, not to get into any one specific, but does this have a big impact to Marriott in as much that you guys kind of worry about as you kind of see those transitionings occurring in your portfolio or are you pretty agnostic to those types of changes?

Arne M. Sorenson: Both, I mean I think we are hopefully a great manager and also a great franchisor, and so we want to make sure we're growing in both sides of this business and we want to make sure that we're doing the right thing with our partners, both owners of managed hotels and owners of franchised hotels. It's an interesting dynamic and you hear lots of explanations for what's going on here.

I actually think when you do the hard work and look at the performance of an individual hotel, really because our operating team in the United States has done a fabulous job in both driving top line performance and getting better and better in terms of delivering that performance to the bottom-line, I don't think usually this is about a short-term effort to drive better cash flow at the hotel, the conversion from managed to franchised. I think it is overwhelmingly about the recognition that there are more buyers of hotels that have flexibility to choose an operator than there are for hotels that are subject to long-term management contracts.

Why? Because there are great franchise operators in this business, the best of whom are our partners, who really are looking only at buying hotels that they can operate themselves And those folks become potential buyers of hotels if they have the flexibility to manage them themselves and if that flexibility doesn't exist they won't be interested in looking at it. And so opening up that pool of buyers I think is the biggest reason that most of these changes have happened.

We still get good fees. In fact, if we're not in incentive fees on a managed hotel, our fees tend to go up if they convert to franchised as opposed to managed. That can be a positive. The other thing that can be a positive is often with a change of ownership in a hotel, renovation will be accelerated, and so that's likely to bring hotel to brand standard faster than maybe the normal renovation cycle would be.

So those are a lot of factors that go into this. It is not cataclysmic to us either way but we do want to make sure that we are as good a manager as we possibly can be, and attractive to the folks who are interested in looking for a third party manager of their hotels.

Shaun Kelley - Bank of America/Merrill Lynch: Great, thanks for the color. And just to kind of hit on the capital return theme which has been discussed, but I guess to ask it more directly, I guess first to Carl, do you think you pulled forward any kind of -- any of the repurchases for your pattern throughout the year in terms of this year? And then I guess bigger picture, is there room next year to kind of duplicate a number that's around this size when you think about what you're going to have in terms of cash flow?

Carl T. Berquist: We're not prepared yet to talk about 2016 and capital returns, but I think there are a couple of things to look out. One is, as we talked earlier about our leverage ratio of 3x debt-to-EBITDA or adjusted debt to adjusted EBITDA, we can go up a little bit, down a little bit, and that gives you a little flexibility in the model to buy back more stock, so to speak, and get more aggressive now. As of the end of the second quarter, we actually came in a little under the 3x. So you could say we had a little capacity at the end of the second quarter on that.

I think that the other item is just how much we can recycle when it comes to what assets are up for sale, and like I said, we've had a good recycling here in the first half of the year and in fact all of 2015 will be a healthy period of asset recycling. I guess what I would say is, kind of take a look at our Investor Conference where we looked out and said, what will we be returning over the next three or four years, and how that's tracking relative to where we are with RevPAR and the assets and what we've done. I think it was $6 billion to $8 billion over that time period…

Laura Paugh: Over a four year period.

Carl Berquist: Over a four year period $6 billion to $8 billion. So pretty healthy shareholder return.

David Loeb - Robert W. Baird: You've covered a lot of the really important topics but I want to drill down into another one, Arne, if you don't mind. With Moxy, I assume Moxy is going to be mostly new build brand. I wonder if you could just talk a little bit about the competitive landscape in the development area for the low rent, call it upper midscale and below brands? Hilton has announced that they're going to have a new brand. And it seems like development results from other franchise oriented companies have been fairly poor. Can you just talk about how you see the competitive landscape and how you see the return profile for developers, like what will the cost per room be and how will they generate returns relative to building a Courtyard or Residence or Fairfield?

Arne M. Sorenson: Moxy is interesting. Obviously we started it in Europe with our partners at Inter IKEA who with one of our European franchisees worked on us for a period of time and basically convinced us and made us disciples really of this notion that the economy segment in Europe ought to be reinvented. You look across that landscape in Europe, there were 2 million rooms in that segment and if you experienced any of those rooms it seemed like the product was trying to tell you, you didn't pay a lot for your room so don't expect much. And we thought with Moxy we could do something which was deliver considerable value to the customers, used great technology to cost-effectively build this product and therefore drive great return for our owners.

It was something which was fun and people would talk about. Now we've got only one open so far in Europe at Malpensa in Milan. It's doing great, customer response has been fabulous, and we've got a pipeline in Europe of nearing 50 I think, maybe 40 to 50 Moxy hotels.

We then had our franchisees in the United States looking at this, sort of understanding what it was and with them decided to launch it here earlier this year. We've now got 40 in our – excuse me, we've got about 15 signed but we've got a number of, a few dozen behind that, that we're talking to our partners about in the North American market.

And what we're seeing is that there really is nothing like this brand in the U.S. It is lifestyle, it is economy, it will be mostly new build, it will be mostly urban, this is intended to be a lifestyle product, it is not intended to be simply another economy brand that we would roll across in tertiary markets across the United States. And I think that makes it quite different from anything that exists out there. Obviously we can't speak about what our competitors are talking about maybe doing in the future because we haven't seen really any definition around them.

David Loeb - Robert W. Baird: Do you think there's room to reinvent economy in the U.S.?

Arne M. Sorenson: I think Moxy in a sense will do that, although again it would be more of an urban application. I think – I don't know, David, that's not really fundamentally what we're trying to do with Moxy. I think the Moxy experience we have in mind will depend a bit on an urban community and environment that can enliven that product, and when you get to a sort of tertiary market, that's a harder trick to pull off or maybe almost impossible in some respects.

Thomas Allen - Morgan Stanley: You started off your prepared remarks just talking about kind of the supply environment and lodging industry and you said that STR doesn't expect supply to kind of come close to long-term averages until 2017. We have good visibility into 2015 and 2016, I mean there are a number of forecasts, but do you guys have a sense of what supply growth will be in 2017 based off of your data and your analysis of the industry?

Arne M. Sorenson: Let us start by confessing that Smith Travel and Lodging Econometrics data is better than ours. We do our best obviously to track our pipeline. We don't have people out there looking at who's pulling building permits from our competitors and trying to assess what's happening in that space. So our efforts rely to a meaningful extent on those folks who are trying to do that work both Lodging Econometrics and STR, and then in some -- to some extent extrapolating some judgment about what we're seeing through our system, but we do not have a secret crystal ball that we're prohibiting you from looking into.

Ryan Meliker - Canaccord Genuity: Most of my questions have been answered but I just wanted to ask real quickly with regards to Airbnb because that continues to be a recurring topic in conversations with investors. Obviously business travel is a big component of your business. Airbnb is now trying to get into that space and grow it. As you talk to your corporate travel managers, where do they put the priority on security, is that like number one cost of entry or is that something that they just kind of take for granted or don't even think about? That would be helpful, thanks.

Arne M. Sorenson: Corporate customers are I suppose in many respects as different from any other kind of customers and so you hear different priorities from different places. We have big and really important corporate customers for whom security for their people is the primary feature. We have some for whom the primary feature is cost. I would think, sort of guessing, we haven't done, at least not that I'm aware of, a survey of every corporate client. It might be something that would be worth doing, but I would think that security and productivity concerns, predictability concerns would all rank quite high for the typical corporate customer of size.

Ryan Meliker - Canaccord Genuity: Okay, that's really helpful. And have you had conversations with your corporate customers with regards to Airbnb and is that a topic that continues to come up?

Arne M. Sorenson: Of course and my answers have been influenced by those conversations.

Ryan Meliker - Canaccord Genuity: Wonderful. Thank you.

Ian Rennardson - Jefferies: Coming back to the supply situation, if I look at the STR data, I'm slightly confused about what you were saying earlier, Arne, about the geographic dispersion of that supply growth. Because the latest data from STR to me looks like that 15 of the top 25 markets are looking at supply over 3 percent of rooms under construction and 21 of the top 25 have got over 2 percent of existing supply under-construction. So I'd just like you to square the circle for me please.

Arne M. Sorenson: The data we have is probably not inconsistent with that. About 55 percent of the rooms were in the secondary and tertiary markets or outside the top 25 is probably the best phrase to use. That means that 45 percent of the rooms obviously are in those top 25 markets. When we look at our top 25 fee producing markets in the United States, there are less than a handful where we see supply growth that looks like it's in excess of numbers that we should be concerned about. It won't surprise you that New York is on the top of that list.

Ian Rennardson - Jefferies: That’s perfect. Thank you.

Wes Golladay - RBC Capital Markets: Looking at Delta, it looks like you guys are off to a pretty strong start with that brand. You mentioned 50 potential conversions. Are any of these Marriott hotels and are you targeting specific competitor brands?

Arne M. Sorenson: I think of the 50, I can't tell you for a certainty that there are zero Marriott hotels, but I think the answer tends towards zero. I think these are requests that have come in from our partners with conversion candidates from other brands. We're not sort of specifically sitting here and saying we're going to identify competitor's brand and go after that one, but I suspect as we see what ultimately happens here, we will be able to reach some conclusions about which brands are the best ponds for us to be fishing in and we'll communicate that with you when it becomes more of a reality.

Wes Golladay - RBC Capital Markets: Okay. And then you mentioned some of the competition was increasing their, I guess competition for trying to get unit growth. Are you more concerned about the economic terms of new deals or just the non-economic terms?

Arne M. Sorenson: We're concerned about both but very much to include the economic terms. Again, this is anecdotal. We have no ability to get insight into what our competitors are ultimately negotiating other than what our partners tell us they may be hearing and it won't surprise you that if what our partners tell us comes up in the context of a negotiation there is always some bias to exaggerate the great terms that might be offered by somebody else.

But having said that, anecdotally we see that some of the terms that have been put out there are deals that cannot create value in any traditional sense when you look at the cost capital or you look at the cost associated with adding a hotel to a system, and seem to be driven by a desire simply to add rooms.

Vince Ciepiel - Cleveland Research: Just one here on group, could you add some additional color there, sounds like you guys have done a good job improving 3Q from down 2 to up 3 and 4Q kind of has seen a little bit of a contrary move but it sounds like it's due to last-minute bookings kind of being reduced, so what's going on with the booking curve in group and how do you see that kind of 7 percent figure for 2016 evolving over the next maybe 6 to 12 months?

Arne M. Sorenson: I think the group data is without exception encouraging. I think those numbers that you ticked through, they each have a little bit of a story obviously to -- in the abstract it doesn't sound like plus 3 in group booking for Q3 is something to write home about. But given the way the holidays work in the quarter, given that it's a seasonally weak corporate group quarter except for the month of September, and given where we came from, we think it's come along well and we're pleased with the way it's moved.

The fourth quarter numbers I wouldn't view as being concerning in any respect. The prepared remarks were really only meant to communicate that the 9 percent growth we've got on the books at the end of the second quarter for Q4, our guess is, will not hold only because occupancies are high and therefore we won't have the space to take as much short-term bookings as we took last year.

And I suspect as we get into 2016, we'll see some of the same dynamics. I suspect we'll start 2016 with relatively more of the full year group business on the books at the 1st of the year than we started 2015 for. And what that suggests – I wish I had data for you, I don't at our fingertips, I don't know Laura or Carl whether you do, but undoubtedly we're seeing the booking window lengthen…

Laura Paugh: We definitely are.

Arne Sorenson: …for group business. And we'll make sure a quarter from now we get some specific data out there to help you understand how that window is lengthening.

That's one reason I think you look at this statistic of bookings in a quarter for all future periods. That's a way of thinking about – it's sort of neutral in a sense to the length of the booking window, and that was that 8 percent figure for Q2 of 2015.

Vince Ciepiel - Cleveland Research: Great. And just following up on that, you mentioned 55 percent booked. Is that similar to where you were last year, and then maybe in that 7 percent figure, how much is kind of rate versus rooms?

Arne M. Sorenson: I don't know off the top of my head about 55's comparison to last year but I would almost guarantee you it's higher now, than a year ago. In other words, that our booking window is lengthening, so we've got a bit more business on the books today for 2016 than we did a year ago for 2015. When you look at the 7 percent plus revenue, I think we're about 50-50 room nights and rate contribution for 2016.

Vince Ciepiel - Cleveland Research: Great. Thanks very much.

Arne M. Sorenson: Alright, we've exhausted you all. Thank you for your time this morning and for your interest in Marriott. Get on the road and come stay with us.

--END--