Hilton Worldwide Holdings Inc. (NYSE:HLT)
Q1 2024 Earnings Call Transcripts
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Presentation

Operator
Good morning, and welcome to the Hilton First Quarter 2024 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Jill Chapman, Senior Vice President, Investor Relations and Corporate Development. You may begin.

Jill Chapman
Thank you, MJ. Welcome to Hilton's First Quarter 2024 Earnings Call. Before we begin, we would like to remind you that our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements, and forward-looking statements made today speak only to our expectations as of today. We undertake no obligation to update or revise these statements. For a discussion of some of the risk factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K.

In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at ir.hilton.com.

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Chief Financial Officer and President, Global Development, will then review our first quarter results and discuss our expectations for the year. Following their remarks, we will be happy to take your questions.
With that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta
Thanks, Jill. Good morning, everyone, and thanks for joining us today. We are pleased to report strong first quarter results, which continue to demonstrate the power of our business model and the strength of our development story, both adjusted EBITDA and adjusted EPS meaningfully exceeded the high end of our guidance even with RevPAR growth at the low end of our expected range. We

also announced several new partnerships and additions to our brand portfolio, which will enable us to build even more loyalty with customers and help accelerate growth.

Turning results for the quarter, system-wide RevPAR increased 2% year-over-year, which was at the low end of our guidance range as renovations, inclement weather and unfavorable holiday shifts weighed on results more than we anticipated. Leisure transient RevPAR exceeded our expectations even with tough year-over-year comparisons given continued strength in international markets and holiday shifts, business transient recovery remained steady with RevPAR across large corporates, up more than 3%, driven by strong demand in consulting and government contracting. Group RevPAR rose nearly 5% year-over-year, led by strong convention and social demand. Additionally, corporate groups continue to grow as a percentage of booking mix and booking windows continue to lengthen.

As we look to the rest of the year, we continue to expect system-wide RevPAR growth of 2% to 4%, with the U.S. towards the low end of the range and continued strength in international markets. We expect positive RevPAR growth across all major segments, led by group performance at or above the high end of the range, business transient around the midpoint and leisure transient towards the lower end of the range. For the full year, group position is up 13% versus last year.

Turning to development. We started the year off strong, building on the positive momentum from 2023. In the quarter, we opened more than 100 hotels totaling approximately 17,000 rooms and achieved net unit growth of 5.6%. Hotel openings span nearly all brands, demonstrating the strength and breadth of our industry-leading brand portfolio. Conversions accounted for 30% of openings, largely driven by DoubleTree and Spark. In the quarter, we celebrated the addition of a number of new luxury and lifestyle properties, including the debut of LXR in Hawaii, the introduction of the Waldorf and Canopy brands to the Seychelles and the highly anticipated opening of the Conrad Orlando.

Located within the newly developed Evermore Orlando Resort complex, the Conrad Orlando features 5 distinct dining venues, an 8-acre lagoon and expansive pool complex, a world-class spa and extensive meeting and event space. We also achieved several milestones in the quarter, including the opening of our 800th hotel in Asia Pacific, our 225th hotel in the CALA region and reached 25,000 true rooms globally. Additionally, Hampton opened its 3,000th property worldwide. Since its launch 40 years ago, the Hampton brand has been a category leader with the largest global pipeline of any focused service brand and the recently announced new North American prototype. Hampton continues to demonstrate the strength of our legacy brands and the power of our innovative approach to brand evolution, we are confident that the best is yet to come for this iconic brand.

In the quarter, we signed 30,000 rooms, increasing our pipeline to a record 472,000 rooms, up 2% from last quarter and up 10% year-over-year. Signings meaningfully outperformed our expectations driven by strength in international markets. In Asia Pacific, we signed agreements for 4 new Conrad properties, further strengthening our luxury pipeline. Globally, an interest in Hilton Garden Inn remained particularly strong with the brand achieving the highest quarter of signings in its history. System-wide construction starts also outperformed expectations, up roughly 45% versus last year, with all major regions meaningfully higher. Approximately half of our pipeline is under construction and we continue to have more rooms under construction than any other hotel company, accounting for more than 20% of industry share and nearly 4x our share of existing supply.

We also recently announced several exciting partnerships and tuck-in acquisitions, further accelerating our expansion into the fast-growing lifestyle and experiences categories. Earlier this month, we acquired a controlling interest in Sydell Group to expand the NoMad brand from its existing London flagship location to high-end markets all around the world. Our development teams are fully engaged and we have a great pipeline building. Additionally, we announced an agreement with AJ Capital to acquire the Graduate Hotels brand, a collection of over 30 lifestyle hotels in university anchored towns, each Graduate Hotel, steeped in local history charm and nostalgia and designed to reflect the unique character of its local university, offering the perfect setting for game-based graduations, reunions and campus visits.

Graduate presents a unique opportunity to serve more guests, especially in markets where we're not present today. With thousands of colleges and universities around the world, we believe the addressable market for the brand is 400 to 500 hotels globally. For the rapidly increasing number of travelers looking to prioritize exploration and adventure, we recently announced an exclusive partnership with the premier outdoor hospitality company, AutoCamp. Stays will be bookable on Hilton's direct channels in the coming months, and we will offer our guests an experience that blends the spirit of an outdoor adventure with the hospitality and design forward nicking of a boutique hotel. Hilton Honors members will be able to earn and redeem points on stays and enjoy exclusive membership benefits while experiencing sought-after locations around the United States, including several properties adjacent to popular national parks. Along with our previously announced exclusive partnership with small luxury hotels of the world, these offerings provide incredible opportunities to further accelerate our growth and enhance our network effect by broadening and deepening our customer offerings in some of the industry's fastest-growing markets and segments. As a result of our strong pipeline and all the great progress we've seen to date for the full year, we expect net unit growth of 6% to 6.5%, excluding the planned addition of Graduate.

To provide even more personalized experiences for our guests, we continue to leverage our industry-leading technology platforms from a digitally enabled concierge for our luxury brands, to the ability to choose your room from a floor plan and control your in-room entertainment from your mobile device. We continue to fully integrate the digital experience. Additionally, recent initiatives like add-ons Hilton for Business and improved search functionality are driving even greater conversion and higher revenue.

We also continue to be recognized for our incredible workplace culture, Fortune and Great Place to Work recently named Hilton, the #1 on the list of best companies to work for in the United States, marking our ninth consecutive year on the list, and our sixth consecutive year in the top 10. In total, we won 20 Great Place to Work awards around the world with 5 #1 wins. These recognitions follow our ranking as the #1 world's best workplace and make Hilton the only hospitality company to have earned the top spot on these prestigious lists.

Overall, we're very pleased with our first quarter results, and we expect our industry-leading brands, strong development story and powerful business model to continue to drive growth. Now I'm going to turn the call over to Kevin for a few more details on our results for the quarter and our expectations for the full year.

Kevin J. Jacobs
Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 2% versus the prior year on a comparable and currency-neutral basis. Growth was largely driven by strong international performance and continued recovery in group.

Adjusted EBITDA was $750 million in the first quarter, up 17% year-over-year and exceeding the high end of our guidance range. Our performance was driven by better-than-expected fee growth largely due to better-than-expected international RevPAR performance, license fee growth and timing items. Management and franchise fees grew 14% year-over-year. For the quarter, diluted earnings per share adjusted for special items was $1.53.

Turning to our regional performance. First quarter comparable U.S. RevPAR was down 40 basis points year-over-year as renovations, holiday shifts and weather impacts dampened transient trends. Group performance remains strong. In the Americas outside the U.S., first quarter RevPAR increased 7% year-over-year with strong transient demand driving RevPAR growth of 10% in urban markets. In Europe, RevPAR grew 10% year-over-year with solid performance across all segments. A number of large events in the region drove strong group performance across several key cities. In the Middle East and Africa region, RevPAR increased 15% year-over-year, led by both rate and occupancy growth. Several prominent events, including the Asian Cup in Qatar and holidays in Saudi Arabia contributed to strong performance in the region.

In the Asia Pacific region, first quarter RevPAR was up 8% year-over-year, led by rate growth in Japan and Korea. China RevPAR was flat in the quarter with strong results in January and February, offset by difficult year-over-year comparisons in March. RevPAR in China's top cities increased 6% in the quarter, but an uptick in outbound travel pressured demand in secondary and tertiary markets, which benefited early in recovery from strong domestic travel.

Turning to development. We ended the quarter with more than 472,000 rooms in our pipeline, up 10% year-over-year with approximately 60% of those rooms located outside the U.S. and nearly half of them under construction. Looking to the year ahead, we expect net unit growth of 6% to 6.5%, excluding the planned acquisition of Graduate Hotels.

Moving to guidance. For the second quarter, we expect system-wide RevPAR growth of 2% to 4% year-over-year. We expect adjusted EBITDA of between $890 million and $910 million and diluted EPS adjusted for special items to be between $1.80 and $1.86. For full year 2024, we expect RevPAR growth of 2% to 4%. We forecast adjusted EBITDA between $3.375 billion and $3.425 billion. We forecast diluted EPS adjusted for special items of between $6.89 and $7.03. Please note that our guidance ranges do not incorporate future share repurchases or any contribution from Graduate Hotels which we expect to close in the second quarter.

Moving on to capital return. We paid a cash dividend of $0.15 per share during the first quarter for a total of $39 million. Our Board also authorized a quarterly dividend of $0.15 per share in the second quarter. Year-to-date, we have returned more than $900 million to shareholders in the form of buybacks and dividends. And for the full year, we expect to return approximately $3 billion. Further details on our first quarter results can be found in the earnings results we issued earlier this morning. This completes our prepared remarks.

We would now like to open the line for any questions you may have. We would like to speak with as many of you as possible, so we ask that you limit yourself to one question. MJ, can we have our first question, please?

Question and Answer

Operator
Of course, the first question today comes from Stephen Grambling with Morgan Stanley.

Stephen White Grambling
I just touch on the guidance in the first quarter. It seems like, clearly, some positive commentary in there. I just want to make sure I'm clear. I guess, when you put it all in the blender, if you will, what's really change in your mind as you look at the back half of the year and take into account what you've seen in the first quarter, both as it relates to development versus some of the deals you've made and then also what you're seeing on RevPAR.

Christopher J. Nassetta
Sure. Happy to cover that. That's a broad array of topic so really -- really artful questions, Stephen. I would say when you flush it all out, obviously, and Kevin covered it in his prepared comments, the first quarter from a RevPAR point of view is a little bit lighter than we thought, but sort of easily explained on the basis of what Kevin already talked about. We had a lot more under construction than we had anticipated, which is a good thing, but not enough rooms out of inventory in a lot of those assets, particularly in our limited service brands to take it out of the comp set. So that weighed on is weather, definitely, we didn't anticipate what was going on -- what happened in the Northeast at the beginning of the year.

And then while we certainly knew about the holiday shift of Easter moving in. It was a little more impactful and spring break sort of ended up being like a rolling 4 weeks of spring break. And so we underestimated that. As we think about the full year, the way to think -- the way I think about our outlook is the way I think most people are thinking about the broader economy, and that is the broader economy is reasonably strong. It seems to be very resilient. Obviously, employment numbers are quite good. Corporate profits, it depends on the industry, are still quite strong. And so as we sort of factor for that for the rest of the year and we think about the various segments, it leads us to feel about the way we did when we talked to you last time. Meaning if we look at the big segments, the group business is still incredibly strong. The demand is great. Every month that goes by, it's very strong.

While the first quarter was certainly choppy because of the movement of the holiday and all that. When you talk to customers, which we do all the time and I do, I think you get a very positive view about there are people traveling more for business transient. And because the economy has been resilient and employment has been strong, I think it helps with the underpinning, while leisure certainly is normalizing from super high levels. It gives you, I think, a reasonable amount of confidence that it's still going to be relatively strong, modest growth, mostly in the form of rate because we continue to have a decent amount of pricing power. And so when you sort of like put that all in the gonculator and spit it out at the end of the day, from a RevPAR from a top line point of view, that's why we maintained our guidance. First quarter, a little bit more choppy, but the reality is some of that reverses because of the holiday shift, we'll get the benefit in the second quarter, and we feel about the same based on a pretty consistent consensus view that the economy is going to maintain relative strength.

On the development side, between Kevin's and my comments, you heard, I mean, we feel like we have a lot of momentum. I said it on the last call, that I think we were on the slope up. And I said -- and we said it at our Investor Day that over the next few years, we think we'll be at 6% to 7% in NUG, that's where we think we're going to be and the reality is we had strong expectations carrying over momentum from the end of the year, but it was better in terms of signings and starts and openings, frankly, that a little bit than we thought. And so as we look at the year and we look around the world and work with our development teams. I mean the reality is we think we're going to sign more deals than we've ever signed, and we're going to start more deals and more hotels under construction than we're going to sign. That obviously is helped by conversions, but it's also new development. I mean if you look at the new development versus conversions, they're both up in sort of the low teens.

So there's a lot of momentum. What's driving that? Of course, we think people have a lot of interest in our brands because of their best-performing brands. But if you look at the broader system because of the relative strength of this economy and many other economies around the world, people are largely very profitable. And as a result of being very profitable in their existing portfolio, their desire is to continue to expand their businesses. And so we feel very, very good about what's going on. The financing environment. I'll leave some other things for maybe other questions I can keep going. But that's sort of both from a revenue top line point of view and a little bit of color on both and unit growth to give you a sense of how we think about the outlook for the year.

Operator
The next question comes from Joe Greff with JPMorgan.

Joseph Richard Greff
Chris, just kind of going back to your comments on how you're viewing the balance of this year. You mentioned all 3 major segments you would expect to be degrees of up year-over-year from a RevPAR growth perspective. If you were to bifurcate it between the full-service chain scale segments and the select service chain scale segments, would you expect the lower-end chain scale segments to be positive year-over-year?

Christopher J. Nassetta
Yes, modestly. I mean we think they will be lower in performance, but we think our forecasting and outlook is they will be positive but modestly so. And those were impacted in the first quarter by the things -- more dramatically by the things that I described. And by the way, comparability because the first -- if you look broadly in the first quarter over the last year, from the standpoint of how we perform relative to the industry overall, we had a much better performance than the industry, and that was really driven by the select service brands. And so they have lapped in the first quarter over very, very difficult comps. That gets easier, pretty difficult comps in Q2 for the record as well, but we think that gets much easier in the second half of the year from a comp issue. And so our expectation is they would be positive but lower than other higher chain scales.

Operator
The next question comes from Robin Farley with UBS.

Robin Margaret Farley
Great. I wonder if you could kind of remind us where we are. You talked about the Group being up -- position up 13% year-over-year, but where we are with Group and business transient relative to 2019? And then I kind of have a part 2 of the question, which is just when we look at the broader STR trends and occupancy in the U.S. has been down for -- depending on how you measure a month there from sort of 7 to 12 months with all the RevPAR coming from rate increase. And just wondering in your long experience looking at trends over the years, does that worry you at all that occupancy is down even with, I think, not getting back to 2019 levels yet and kind of what that might mean for rate and RevPAR later in the year?

Christopher J. Nassetta
Yes. Taking one at a time. In terms of Group and BT versus '19, they are both eclipsing from a revenue point of view, but from a demand occupancy point of view, they're both below business transient modestly, pretty minor. Group a little bit more so, I think, like 500 basis points or something like that is from memory. They can, in fact, check me. And that has -- so let me cover in reverse order business transient is, I mean Group is just a function of gestation period for this to ramp up. I think by the time you get to the second half of the year, and certainly, by the end of the year, Group demand will be finally back to where -- just based on the underlying strength in that space. Business transient, as I said, is a little bit off. If you break it down between small, medium businesses versus the big corporates, the small, medium businesses are already demand-wise over, and the big corporates are under. But as you saw, we had pretty big growth relative to a quarter that wasn't a lot of -- was more leisure-oriented because of the holiday shift in big corporates, and that's what we're hearing from our big corporate customers as they're traveling more. So that is coming back. Their balance sheets are strong. Earnings are still -- maybe they're going up at a lower rate or whatever, but they're still relatively strong.

And so our expectation is by the end of the year from a demand point of view, we think there's an awfully good chance that BT will get there, too, just with continued growth in the big corporates in very resilient SMB business. And that's sort of how we've baked our outlook. In terms of occupancy and rate, that sort of answers the question then because we think you are continuing to build occupancy through the rest of the year. I think you got to be really careful in the first quarter. The first quarter is super messy with the things that we've talked about going on. It's really hard to like glean much from that.

But if you look at the Group trends, they are really strong, as I said, and that provides a tremendous platform to yield manage that we really haven't had in the way that we're starting to have. And if you agree with the sort of the underpinnings of business transient and occupancies are not raging up but are sort of grinding up. Again, that gives you a pretty good setup for some modest occupancy gains. Those are going to come in BT and Group, not in Leisure. In fact, you could have slight occupancy declines in Leisure, but I think in the core of the more days of the week than not, you're building more pricing power, which I think allows you to continue to have the ability to push rate.

Operator
The next question is from Shaun Kelley with Bank of America.

Shaun Clisby Kelley
Chris, just hoping we could get a little bit more color on sort of the regions. You gave some in the prepared remarks, but specifically, to dig in U.S. at the lower end of the range. So I think we've talked a little bit about what could get that coming. But anything you're seeing on April there in terms of some of the shift back from Easter. And then I think more importantly, you called out some strength elsewhere, Europe, Japan. Could you dig in a little bit there? And specifically on China, just flattish, the exit rate wasn't that great. What needs to happen there one way or another to impact Hilton?

Christopher J. Nassetta
Yes. Thanks. I'm going to ask Kevin to take that.

Kevin J. Jacobs
Yes, Shaun, I'll take this one. I think, yes, in the U.S., we're seeing so far is in line with our expectations, right? The Easter calendar shift is flipping back the way we thought April is in line with what we thought. And so if you think about our 2% to 4% guide for the whole company, I think the U.S. will be at the lower end of that range, but I think you'll see the U.S. go back to positive I think around the rest of the world, I said it in my prepared remarks, but Europe remains really resilient, up 10% in the quarter. There's a lot of noise in the economy in various European economies and war and whatever else is going on, it still seems to push through, and we still seem to get pretty good performance. APAC, the same thing.

Now China we said was flattish for the quarter. We think it will be about the same for the year. And what's happening there is what we said in our prepared remarks is that you had a lot of resilience coming out of the pandemic with domestic travel really fueling strong demand growth there. And now people are starting to move outside of the country because they can. And the urban markets in China are performing really well. The secondary tertiary markets are feeling the effects a little bit of people leaving the country and we think that will continue for the balance of the year. And I think you asked what you need to have that change is you need to have more inbound into China, particularly from other parts of Asia Pacific and then you need to see people from other parts of the world starting to come inbound to China to create that incremental demand that will enable us to yield rate and have that start to grow again.

Christopher J. Nassetta

Yes. The other thing -- I think that's all perfect, I would add on relative to China is we are also, while people aren't coming into China, we are starting to see that shift. There are a lot more flights that are going to start in the second and third quarter that are going to be going from major destinations, including the United States into China, which is going to help. But we are also seeing is the Chinese customer and as much as we think will sort of be flattish this year because there was a huge surge in Chinese were staying in China and traveling all over China, and now they're leaving. We are a net beneficiary of that and other parts of Asia.

So if you look at our Southeast Asia business, our Japanese business, I mean, they are largely predominantly staying into Asia at the moment. I think that's going to change as more flights open up. And so we're getting -- well, China is not surging in the sense we talk about, we are seeing other markets, particularly Southeast Asia and Japan that are huge beneficiaries of that migration.

Operator
The next question comes from Carlo Santarelli with Deutsche Bank.

Carlo Santarelli
Kevin, I know you touched on it in your prepared remarks a little bit, but specifically on the base and other fees, I think they were up about 32% year-over-year, a dramatic acceleration. In terms of the things you mentioned, I would assume some of that is international, but any way you could provide a little bit more color on the drivers there?

Kevin J. Jacobs
Yes, sure. I mean, part of it is, as you said, it's a mix. I mean, in parts of the world where we have more managed hotels is driving more management fees and incentive management fees. We had good performance in license fees, as we mentioned, were up ahead of the broader business. And then our purchasing business has been really strong as it continues to grow. And that you see showing up in other -- that business has continued to take share even outside of our system, it continues to take rate, and it's performing really well. So that's been a positive driver there as well.

Operator
The next question comes from David Katz with Jefferies.

David Brian Katz
With respect to net unit growth, I know you said previously that the acquired entities may add 25 or 50 basis points. Can you just sort of paint us a longer-term picture of how the addition of those should roll into your NUG. Is that sort of included Chris, when you say 6% plus. How should we think about those brands in the context of that?

Christopher J. Nassetta
Yes. I mean we did say last time that we were going to incorporate SLH into it, and that is incorporated into our 6% to 6.5%. We ultimately will add in Graduate, but just we think the better convention is to add both the EBITDA and earnings impact and the net NUG impact once closed so that is not in that. I think the way to think about it going forward is the SLH is going to be probably coming into our system over the next couple of years. It's early days, but so far, we really like what we're seeing. We're getting a very, very high percentage of existing SLH members in the markets that we have been out and with SLH marketing to sign up and want to come into the system. And we have no reason to believe that won't continue, getting the technology and all that done, which is people are working on both sides very, very diligently on. We'll start to get us to the other side and incorporating assets and the ability for our customers to book through our channels and honors, earn and burn and all of that, sometime probably middle or late summer so I mean, it's a little bit of a moving feast.

But the 6% to 6.5% does incorporate what we said last time. It's probably 1/4 to 0.5 point is the way to think about that consistent with what we said last time. And there'll be more next year built into that. And my guess is as we grow that business with them, it will continue to contribute probably at a lesser degree just because we'll get the bulk of the system in over this year and next. Graduate will be kind of a onetime thing. And as we said at our Investor Day, we believe -- and we don't have -- I said there, we had one other thing we were working on. We announced one thing since then. We don't -- I don't think you should expect that you're going to see any additions to NUG in that arena. Now I'm going to say because I always do, never say never. I've been saying that for the many years I've been running the company, but we don't have any other of those sorts of tricks up our sleeve anytime soon. So I think the way to think about our guidance of 6% to 7% over the next few years is there'll be a onetime sort of thing for Graduate, but it's otherwise organic in the way it's always been.

Operator
The next question comes from Smedes Rose with Citi.

Smedes Rose
I just noticed that the percent of the pipeline under construction just ticked up a little bit from fourth quarter and first quarter. I was just wondering, is that concentrated in the U.S. and could you just maybe talk a little bit about what developers are seeing in terms of getting properties out of the ground on the financing front or getting the supplies of the workers they need. Just any color along there?

Kevin J. Jacobs
Yes, sure. I mean I think the percentage under construction is from both. I don't have the breakdown right in front of me, but it's definitely from both and then somewhat driven by slightly higher. We've been talking about a slightly higher percentage of conversions. So those go under construction more quickly. And so as you do those, it moves the percentage of the pipeline that's under construction a little bit. I think in terms of the atmospherics, I think, look, you hear -- we all hear from a lot of developers, you probably talk to developers. It's still challenging the labor cost side of it and the raw materials cost side of it, those dramatic increases that we saw during COVID have leveled off. So that's a good news story.

Capital remains more expensive, although I think important to note that it's a little bit less expensive than it would have been sort of end of last year or over the course of last year. So I think you're still seeing better developers and the better projects are getting financed. It's a good new story broadly across the industry, fewer things are coming out of the ground, but we're taking share. So we have higher quality brands that are more easily financeable. So more of our projects are getting done and coming out of the ground. It's just sort of at a slightly slower rate. But like as we said in our prepared remarks, and Chris mentioned in some of the Q&A, we think our starts are going to eclipse prior peaks this year, they're going to be obviously up year-over-year. And so we're getting enough done to keep momentum, but it's still a little bit tough out there in terms of financing.

Operator
The next question comes from Brandt Montour with Barclays.

Brandt Antoine Montour
And maybe for Kevin. Kevin, you mentioned timing items. If you could just elaborate on that and sort of what and where and when we should expect any of that to reverse, please?

Kevin J. Jacobs
Yes. I mean timing will be -- it will largely reverse in the second quarter. It's not huge. It's sort of $5 million to $10 million of timing items in the first quarter. And then to sort of just finish the story at the risk of doing modeling live on the call. But we did increase our guidance at the midpoint by $45

million, but that has a headwind -- an incremental headwind in and of about $10 million to $15 million, closer to $15 million of FX over the course of the year. So we did, in fact, carry through a little bit more than the beat in terms of our outlook for the year.

Operator
The next question comes from Chad Beynon with Macquarie.

Chad C. Beynon
Wanted to ask about Group beyond '24. Is this continuing to build in terms of multiyear commitments? Maybe just kind of a stat in terms of what you're seeing on the books for '25 at this point versus what you historically have seen during these periods?

Christopher J. Nassetta
Yes. I don't have the data point in my head, but I do know this. Yes, it's building for '25, '26. I believe both years are sort of high single, low double-digit increases relative to where we've been in the past. So yes, I mean, they're putting the data in front of me. So my memory is right, 13% and 15% up in '25 and '26.

Operator
The next question comes from Patrick Scholes with Truist.

Charles Patrick Scholes
On the NoMad news, that's a pretty small change at the moment. What are your plans for that? Where do you see that brand going in the next 5 years?

Kevin J. Jacobs
Yes. Look, we think it will -- it is a very strong brand. There's a reason why we wanted to partner with them/controlling interest in that company. It is small today, but it's been a little bit bigger over time, such a well-known brand in the community. And we think that brand will compete really effectively combined with our engines and the strength of our system, compete really effectively with the other luxury lifestyle brands that are out there, and we think it can be upwards of 100 hotels over time. And so most of those will be -- there'll be some conversions, but a lot of them will be new build. So it will be a little bit longer burn, and it's a little bit smaller segment than some of our other scale brands, but we think it will fit in nicely and contribute positively to our NUG over time.

Christopher J. Nassetta
And what we really love about it is we did as I've talked about, it seems like time and eternity, luxury lifestyle. We did a huge amount of work because one of the options was to do this on our own, which you know we are pretty good at and like to do historically. And as we did the work over the last bunch of years, sort of like because this is always benefit in the skunk works, and I'm not exaggerating, this is sort of the ethos of what Andrew Zobler and his team have created a sort of bull's-eye for what we think is modern luxury lifestyle today and going forward in terms of what customers are looking for. And so it was a very efficient way for us to get in the space, accelerate our entry in the space, meaning take -- let's be honest, multiple years because they already have a pipeline, let alone what we're adding to it. And importantly, with Andrew and his team be able to effectively acquire a really talented team of people that are very steeped in the luxury lifestyle space. So we think it was sort of the trifecta. It hit every button for us in terms of making sense. But yes, it's very small. But hey, the good news is it's very small, we didn't pay a whole lot for it, and that means great organic growth going forward.

Operator
The next question is from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth
I appreciate it. Just coming back to the fee rate growth, if we just look at fees as a percentage of total room rev. Can you speak to what drives seasonality, if anything, on this percentage. And in terms of the year-over-year improvement, you showed nice improvement here in the first quarter. Can we hold on to that as we progress through the year? Or is it lumpy?

Kevin J. Jacobs
Sorry, Duane, I didn't quite catch the first part of your question.

Duane Thomas Pfennigwerth
Just the fee rate growth, which you showed nice improvement on year-over-year total fees as a percentage of room rev, is there seasonality on that percentage? And if so, what drives it? In other words, you made nice progress here in the first quarter. It's one of the concepts you talked about in your Investor Day is sort of raising royalty fees, et cetera. Is there anything specific to the first quarter that's kind of nonrecurring? Or can we hold on to that improvement as we progress through the year?

Kevin J. Jacobs
Yes, I think it's a bit of both without getting into too much detail. There was a touch of the timing was in fees, but a lot of it is strength. And like I said earlier in one of my answers, in the parts of the world where our managed business is bigger and the segments in the U.S. with urban hotels where our managed business is bigger, we think incentive management fees will continue to be a strong contributor over the course of the year, and that's sort of all baked into our guidance. So no anomalies in there.

Operator
The next question comes from Michael Bellisario with Baird.

Michael Joseph Bellisario
Two parts for you on loyalty. Just first, what was Honors occupancy in the quarter? And then bigger picture. Just aside from offering customers more options, how are you driving how are you thinking about incremental engagement? I know you're still having to educate travelers about loyalty and the benefit of loyalty, especially compared to all the book direct and marketing campaigns you had to do pre-pandemic?

Christopher J. Nassetta
Yes. Honors occupancy was, I think, at our historical high 64% and change up like 300 to something -- a little over 300 basis points year-over-year. And so Honors is working. Our customers are engaged more than I think any other program that is out in the industry. We do have a bunch of things that we are doing. Some of them you've seen that are -- what we're doing with SLH, what we're doing with AutoCamp, you should expect to see more not like Graduate type things, but more partnerships particularly in the experiential area. I think I talked about it on the last call so more AutoCamps, I think areas like safaris and yachts and other riverboat cruises and other things because we know that our customers -- those are adjunct sort of travel experiences that connect to our business that gives our base of customers, incremental things to engage with us that they want to do and is not in conflict in any way with our business, but we think is synergistic.

And so there are a bunch of other things that we're doing that. But in reality, our expectation, while we, I think, to lead the industry, I know we do at 64%. We have aspirations as we talked about at Investor Day, to be really at 75%, maybe over time, even higher. And that's a very -- I'm not going to get into the details of it for a whole bunch of competitive reasons. But that is that is not 1 or 2 things. That's a series of strategies broadly for Honors, some of which I just talked about, further opportunities to keep customers engaged in other ways that are new and different and appealing to them.

But it's also a significant amount of work that creates a more bespoke offering in certain major regions of the world, I think Asia Pacific, particularly China and other parts of the world where loyalty is a big deal, but what appeals to that customer base may be a little bit different than what might appeal to a customer base here in the United States. And so there's -- again, there are a whole bunch of different things that we are going to do. So I think you should have an expectation you'll continue to see that Honors occupancy go up as a result of greater engagement. Obviously, that is our lowest cost distribution channel. And so that's good for us and very good for our owners that it helps drive incremental market share gains and does it on a very cost-efficient basis. But I'm not going to get into granular strategies within Honors in this format or any format for that matter other than with our customers.

Operator
The next question is from Bill Crow with Raymond James.

William Andrew Crow
Two parter here, Chris. First, how much risk do you think exists? Or are you seeing any signs that the weaker demand we're seeing at the low end of the chain scale could migrate upward as the Feds hire for longer stance persists? And the second part is simply third quarter, how much impact do you anticipate from the Olympics, if any, on overall results?

Christopher J. Nassetta
Yes. I mean we do think the Olympics will be a nice positive for Europe broadly and obviously, for Paris and France. I mean our -- it's not going to dramatically impact our numbers just because Europe is a pretty big part of our portfolio. But if you look at France, while we're present in a lot of markets in France. We're not -- it's not a large portion of our portfolio. So it will be great, and it will help, but it's not going to help as much as if it was in New York City or summer where we had a huge density hotels.

In terms of the first question, which I think is a really good question. And I think, listen, it deserves a good answer, and I'll give you the best I got. The best I got is who said it George H. W. Bush, it's the economy, stupid, I think. I'm not calling you stupid Bill, for the record. But it has everything to do with the economy. I mean the reality is, as I said in my comments, our outlook is based on a pretty -- not just consensus view, but a strong consensus view that the economy is going to be growing at a decent rate and employment is going to stay pretty strong.

Obviously, higher for longer is the Fed's way of trying to like tamp things down. But there's no question in my mind, you can have your own view, everybody can, that the Fed is trying to orchestrate a soft landing. So far, it feels like they have been able to do it.

Our outlook with the U.S. being at the low end of our guidance ranges sort of anticipate that consensus view, which is a soft landing, which means the economy is more resilient than people thought but broadly as the year goes on, softening because that's what the Fed is trying to do. And we have tried to sort of factor for all of that in our guidance. And so whether it's the upper end, lower end or wherever it is, I think it has everything to do with a broader economy. The good news for us is the median income of our core customer, like our lower member is high, it's $150,000 median income where the Fed where you look at the data out of the credit card companies and the retailers, it's like $100,000 and below is where you see people stretched and credit card balances, bank accounts running out and credit card balances going up. When you get up into the $150,000, the data still looks really good in terms of people have a lot of money in the bank and they have enough disposable income.

And as I said, businesses, company, corporate America is still relatively strong. So I think of the economy, if they -- I think this range and outcome that we've given and sort of where the U.S. we think will flush out is based on the consensus view that we will have some slowing but a soft landing and positive economic growth.

Operator
The next question comes from Richard Clarke with Bernstein.

Richard J. Clarke
In the quarter versus 2019, it looks like U.S. occupancy is still 450 basis points where you were pre-COVID. Obviously, there's some seasonality in there but that doesn't seem to get you anywhere near that. Is it just now a matter of time to get that occupancy back or can we now think that maybe there has been some structural shift in travel that means kind of...

Christopher J. Nassetta
I think you answered it, largely. That has more to do with seasonality than anything. And the calendar shift because remember, Leisure is sort of 25% or 30% of our business and because of the calendar -- because of the holiday shift, it ended up being a big leisure quarter, which meant Leisure was good, but the reality is then 70%, 75% of the business was not. And so I think it's a seasonal plus the compounding impact of the movement of the holiday. So I do think -- I mean, listen, we sort of got -- we got pretty close in December. So I mean, by the fourth quarter of last year, we were pretty tight on 2019 levels.

Operator
The next question is from Conor Cunningham with Melius Research.

Conor T. Cunningham
Could you just talk a little bit about the competition for conversions? Where things are most intense and where regions or areas that you're having more success? You obviously did really well in the first quarter, I think you said 30% of your makeup of the new development was there. Just any thoughts there on competition?

Kevin J. Jacobs
Yes, Conor. It sort of depends on -- it's sort of a little bit deal dependent, right? Sometimes it often depends on which flags are available in that particular market. It depends on where you are at the upper end in luxury, there's a lot more competition because there's just more brands. And then when you get into the sort of the middle tiers and below, there's us and a couple of others that -- not to be competitive that sort of maybe fight for second place when we're not available. So yes, we do really well. I think for the full year last year, in the U.S., we did 40% of all conversion deals that were done in the U.S.

So we take a lot of share. We're doing really well. We've talked about Spark is going to be really disruptive in terms of your bringing a brand to a segment that we haven't been in before. So you're combining the strength of our engines with a brand that's sort of new and innovative and can be really disruptive in that space. But that's not the only place we're being successful. We're being successful all over the world. I think we mentioned DoubleTree in our prepared remarks. Our soft brands are gaining momentum, Curio, Tapestry, LXR, so it really -- I'm rambling a little bit. It really does depend on the deal in terms of who shows up and we're competitive with. But I think the good news is when our flags are available, if you can mine our engines with the quality of our brands, we're always right there at the top of the list for developers.

Operator
The next question is from Dan Politzer with Wells Fargo.

Daniel Brian Politzer
Europe seems like it's certainly a bright spot within your portfolio. Can you maybe even outside the Olympics for the rest of the year, could you maybe frame where you're seeing that demand? Is it on the business or leisure side? Is it kind of the higher chain scales or middle tier? Any additional detail there would be helpful.

Kevin J. Jacobs
Yes. I think it's really across the board. They're seeing the same dynamics. The Group demand is strong, business, Leisure, particularly with the strength of the dollar that sort of buys more for leisure travelers going over there, it's really been across the board.

Operator
The next question is from Ben Chaiken with Mizuho.

Benjamin Nicolas Chaiken
Great flow-through on revenue to EBITDA in 1Q. That's in the context of what sounds like some calendar headwinds. Anything you would call out as a tailwind or a comp dynamic or just good blocking and tackling. If I heard correctly, I believe you mentioned there was a $10 million good guy in 1Q that I believe reverses in 2Q? Just anything you could call out as we progress through the year?

Christopher J. Nassetta
A little bit, but I think it's good blocking and tackling. And we -- our flow-through of revenue to EBITDA, we think, is consistent with what we've been saying and outlining 50 -- low 50s and what we described at Investor Day. So Q1 is, I think, a good demonstration of great discipline in running the business even when top line was a little bit lighter than what we had hoped for.

Kevin J. Jacobs
Yes. And again, I think I said this before, but when it comes from fees, right, I mean, that's obviously our highest margin business. And so an incremental dollar of fees and IMF drops straight to the bottom line. So when the strength comes from the fee segment, which probably will continue to because that's our largest segment and our fastest-growing segment, you're going to continue to see better flow-through and margin growth.

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back to Chris Nassetta for any additional closing remarks.

Christopher J. Nassetta
Thanks, everybody. As always, we appreciate you dedicating this much time as we've described. We feel good about the business, good about momentum, good about where broadly economies are to deliver the results that we've talked about and super good about the momentum we have on the development side. And we will look forward to talking to you this summer after we complete Q2. Thanks again and talk soon.

Operator
The conference has now concluded. Thank you for your participation. You may now disconnect your lines.

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