



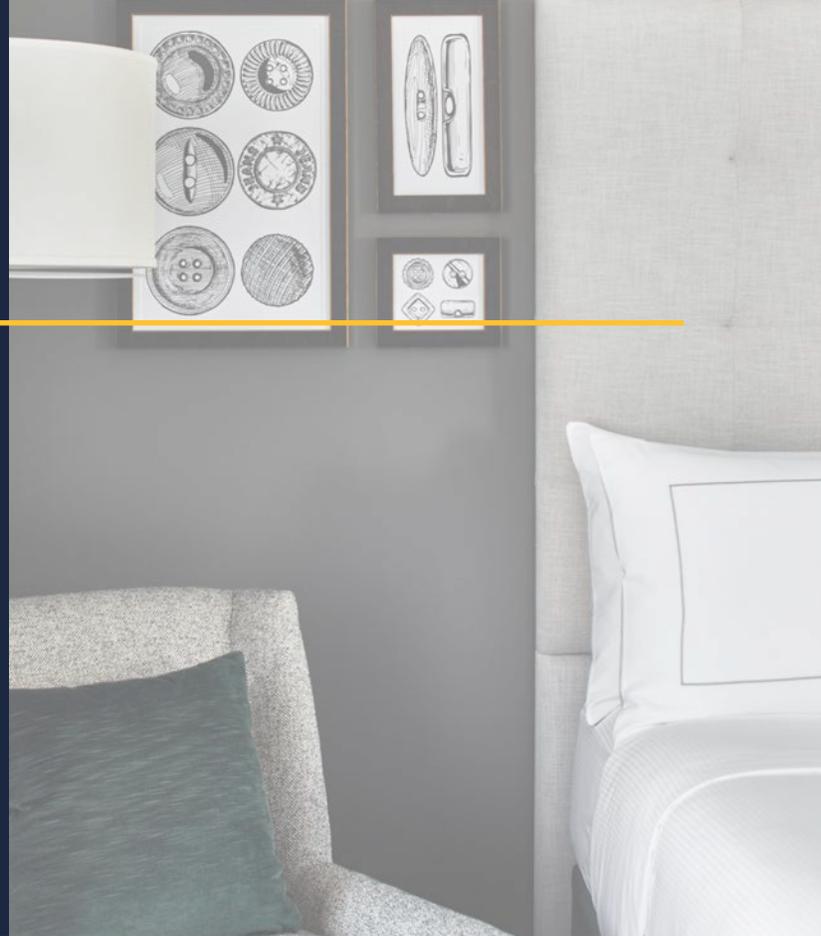
INDUSTRY **SPOTLIGHT**

VOLUME 2

presents

A high-level discussion from the industry's most influential leaders and decision-makers on issues impacting the economy, industries and businesses.

*Christopher Nassetta,
President and CEO of Hilton*



THE MOST ASKED QUESTION WE GET TODAY IS WITH MULTIPLE EFFECTIVE VACCINES FOR COVID-19, DO YOU EXPECT THE LODGING INDUSTRY TO RECOVER AND ITS TIMING? WE ARE VERY OPTIMISTIC ON OUR SIDE BUT WANT TO HEAR WHAT YOU THINK.

I share your optimism.

There is a lot to be optimistic about on the vaccine front and equally a lot to be optimistic about on the therapy front. I do not think we should forget that because, notwithstanding, the vaccine will solve the problem in addition to herd immunity. This is probably something we're going to be dealing with for a long time. Maybe at a smaller scale or variations on the theme in the years to come. Having vaccines and new therapies will be helpful as we think about this potentially going forward.

Having therapeutics that can effectively treat it is happening now, as you see the mortality rates going down. So, I think there are lots of reasons to be optimistic.

There are some, you read it in the headlines, that say, 'this is going to sort of change travel forever.' I'm not one of those that believes that.

What I would say is that while in the short-term, you have some impact. Over the longer term, people's desire to and need to travel for all sorts of reasons has never really stopped. It slows down for periods to get through crises like this, and then it not only picks back up, but it typically speeds up as the pace of the world continues to pick up.

The use of technology that speeds up businesses around the world almost every time has sped up and increased the travel demand. Not everything can be done on a Zoom call. You cannot build relationships; you can't maintain relationships; you can't build culture; you can't collaborate, innovate, and all those things. I think we are relatively stable as an industry now. We have had a huge step up from the depths of the crisis from last April through the summer. We have gotten through the fall and flu season, and we have seen stabilization. I think that you will see a step-change in activity, mobility, and demand in our business in the spring, early summer.

The vaccines, therapies, and herd immunity will be on the other side of the health crisis. We will see a step change. Then we will be on a multi-year road to recovery that will follow the contours of similar recoveries out of economic crises because once we're done with the health issues, we still have an economy that is suffering. We have to work our way through that.

Long term, I think travel and tourism are alive and well, not just in the U.S. but worldwide. I think we will get back to the levels of demand that we had at the peaks of 2017-2019. We will surpass those because of people's need and desire to travel and experience things and build relationships.

I think we will get back to 2018-2019 levels of demand in probably 2023. The only reason I say that is not because I think the health crisis is going to go on between now and then; I think we will get past that in the spring, early summer. Businesses have to build back. Businesses have to build earnings, rehire people, build discretionary spending. That will take a couple of years. Maybe I sound like an old curmudgeon, but I've been doing this a long time. I have had this debate so often, with so many people who want to draw the trend line off the bottom. It is the same way of drawing a trend line at the top. Everybody says it is a new normal, things are never going to go down, and that's wrong. The same is true at the bottom.

When many pundits say, 'everything's changing forever, and it's never going to be the same,' it just doesn't work that way. I think it is a fool's errand to try to prognosticate when you are at the bottom and in the middle of a crisis. My experience would tell me that you have poor visibility. Things will recover; the golden age of travel, which we were calling it over the last decade or two, will return. And I think we will find that this time, as we always do in a crisis, that there are opportunities. The deeper the crisis, the greater the opportunity.

I suspect for you and your team, you will be smart about what you are buying, what they are, where they are, brands, et cetera. This is going to be a more opportune time than we have certainly had in the last three or four years, in my view.



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CONVERSATION HOSTED BY



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**PEACHTREE
HOTEL GROUP**®

ALONG THOSE LINES, WE KNOW COVID IS A DIFFERENT TYPE OF CRISIS, IT IS A HEALTH CRISIS, BUT THEN EXTRAPOLATING BEYOND THAT INTO THE ECONOMICS OF IT, AND YOU MENTIONED RECOVERY TAKING TIME AND REBUILDING. DO YOU THINK THAT HAPPENS EQUALLY ACROSS DIFFERENT ASSET TYPES, LIKE LIMITED SERVICE VERSUS FULL SERVICE, PRIMARY MARKETS VERSUS TERTIARY MARKETS? HOW DO YOU THINK IT PLAYS OUT IN YOUR EXPERIENCE IN LOOKING AT PAST CYCLES? CAN WE EXPECT RISING TIDE LIFTS ALL BOATS EQUALLY?

I think it will eventually lift all boats, but I do not think it will be equally, and certainly, they won't be in the same timeframe. You will see, which is fairly typical, the lower-end price points recover more quickly.

If you think about a big pie of demand, the pie's biggest slice is the mid-market; it is America's middle class. Frankly, this is true anywhere you go in the world. What can they afford? They can afford mid-price products, not high-priced products. Or lower-priced products if they trade down. We see that already. We've seen extended stay do well because of the actual room's makeup and the type of needs customers have during the crisis.

You've seen broadly that the lower price point in the mid-market will perform a lot better. I think that will continue for a while. Ultimately the tide will lift all the boats, and the high-end will recover as well. But I think that takes more economic recovery, more stability; people to feel more optimistic, both businesses and individuals, so they want to spend more money on higher-end products. It will happen. By the time you get to 2023, you will be back to demand levels, so maybe, best case, the second half of 2022 in my mind. Worse case is 2024. I think when we get back to those consistent levels of demand of 2018, 2019, all boats will be floating in the harbor.

Generally, this is true, but I think it is more of an extreme in urban versus everything else. If you look at it historically, because a lot of the upper-end product is in more urban locations - in many cases, they took a little bit longer to recover in prior cycles.

I think in this cycle, it is going to take a bit longer than normal because of everything that has been going on in the cities around America. You have the density of population and a pandemic. People are going to have more trepidation about being in urban environments in that regard. Also, social unrest is going on around the country. While it has settled down, I think it has made the urban environments a bit more challenging. Some, in particular New York and San Francisco, will take a lot longer than normal. But broadly, it will follow the lower-end, suburban, mid-price product, in the mid-price locations, which will recover most quickly.

Now, in terms of opportunity, I also made a living when I was on your side of the business. The world is different than when I was doing what you do, but I made a living going into the points of greatest pain. That's generally where I found the greatest opportunity. And so, if you look at high-end, urban, now that is the point of maximum pain. Not all opportunities will be created equal, but there may be some interesting opportunities because people will shy away because it's scary.



I TOTALLY AGREE. FROM THE STANDPOINT OF LOOKING ACROSS THE INDUSTRY WITH EVERYTHING THAT'S HAPPENED WITH COVID, ARE THERE ANY CHANGES THAT YOU SEE PERMANENTLY ON HOW HOTELS WILL OPERATE GOING FORWARD OR ANY NEW WAYS THAT HOTELS ARE GOING TO BE UTILIZED BY GUESTS, JUST GIVEN THE COVID DISRUPTION?

The lesson in all these crises is necessity becomes the mother of invention. Some things are going to be different. I'd say some trends were already taking place in terms of our business's digitization, and I think those will accelerate.

Thankfully, we have been investing way ahead of the curve and the industry in terms of digital room selection, digital check-in, a connected room where you can interact with the hotel at every level from the palm of your hand. The distribution landscape, all of that was already moving towards being digitized at some level. Not eliminating the people but allowing the people to be more focused on personalizing the experience by taking the more routinized tasks and digitizing them. All of that is accelerated.

Everybody wants contactless entry; nobody wants to touch the remote, the light switch, and all those things. Thankfully, as they say, we were investing heavily in all those things and had already developed (and deployed, in the case of contactless entry) on a global basis. I think the adoption of that will accelerate.

While still a work in progress, there are other ways to utilize the rooms and other spaces in the hotels that can drive incremental revenues. Some of it is COVID-related, like when we launched Workspaces by Hilton. Some of it will be permanent.

I think Workspaces is a good example. People have been doing WeWork and all these other things to have relatively modest spaces to have a place to go to work and have the functionality. We have everything - the food and beverage, Wi-Fi, desk, all that fun stuff. In a world where, maybe for a while, you are worried about cleanliness and hygiene and not congregating too much, you can have a room all to yourself. That's an opportunity.

In the meetings business, the concept of hybrid meetings, which had been coming for a while, accelerated. It affords an opportunity to merge a digital and physical experience where people can have meetings that are not just more effective but are bigger, more profitable, which, I think in the end, helps propel the broader meetings business.

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In today's world, what can you do to be more efficient? Thinking about how you re-invent food and beverage, not just for a COVID world, but re-inventing what we believe customers need and using the crisis as a lever to figure out what customers want and evolve that model to drive efficiencies.

Same with housekeeping. Those are the two biggest expenses in a hotel, our housekeeping, and food and beverage.

How do you drive higher margins? One of the things we have been doing, we call it the Hotel the Future. We are going through every one of our 18 brands and grinding through every standard of Capex and OpEx to say what is needed? What does the customer want? We're working incredibly close with a broad customer base to figure out not just pre-COVID and then post-Covid, what are the things that will drive the premiums that we have. And if it's not necessary or helpful, how do we change it or do it differently so that we can build these things for less and still exceed customer expectations, and allow them to be operated in a way where we deliver the service that customers want and exceed their expectations. But we do it more cost-efficiently.

That is a huge body of work that is going on that I'm 100% convinced that if you push the same level of demand through any of our hotels, particularly in the mega brands, the big, limited-service brands, Hampton Inn, Garden Inn, and the like, that they will be higher-margin businesses.

We are figuring out, again, necessity being the mother of invention, how to do it better in a way that the customers are okay with and will prefer on a go-forward basis.

FASTFACTS ON PEACHTREE HOTEL GROUP

\$1.5 BILLION IN ASSETS UNDER MANAGEMENT

\$2.8 BILLION IN ORIGINATED/ACQUIRED LOANS

COMPLETED **+317 TRANSACTIONS** SINCE INCEPTION

OPERATES **65** OWNED/THIRD-PARTY MANAGED HOTELS

21 BRANDS | **7,723** ROOMS | **17** STATES

+1,330 TEAM MEMBERS

Does that imply that you are expecting certain brands to do better? I'm sure you love all your children, but you mentioned Hampton Inn and Home2 Suites. And we love those brands as well. What makes those better positioned? Is it the limited service?

Just like my six daughters, I love all 18 of my children here at Hilton. So, no, the objective is we are going through every single brand to try and make it more relevant to customers' needs, stronger, more efficient to operate. Ultimately, so we can drive premium market share with every one of our brands. There are no favorites. We are doing that across every single brand. Now, some brands are newer, not at scale. Of all the brands that are at scale, which would be probably 14 of the 18, we are the market leader, meaning we are the category killer in market share in terms of profitability, revenue generation, occupancy rate, or we co-lead. Everyone is a winner, and the idea is coming out a COVID; we continue to push the limits so that we push the market share by being even more relevant to customers' needs.

Now, some are category killers. Hampton Inn is probably, singularly and objectively, the best hotel brand on earth. If you look at what it drives in customer satisfaction, owner returns, market share, margins, it is a killer brand. Home2 Suites is crushing it. Those brands are over 120% average market share across the whole portfolio. They can drive, if you operate them properly, margins of 50 plus percent. They are category killers, but all of our brands are good. Garden Inn co-leads with our key competitor. Homewood Suites co-leads with our key competitor, and then after that, it's a big drop off to the next closest brands of our competitors.

From my point of view, if you are an investor in Hilton, what is important as an owner, wherever you want to be, for whatever particular segment makes sense and location, we want you to have an option, and it's the best option that is available to you.

When you are a customer and stay at a Hampton Inn or a Tru or a Home2 Suites, it can't be Russian roulette. We have to have the best stuff everywhere so that you become loyal across the whole system. A customer is rarely just a Hampton Inn brand loyalist or just a Home2 Suites loyalist. Some of them are, but they are Hilton loyalists. Everywhere they go, we must deliver the product and the service that they want in that location, at that price point, or for that physical makeup of that particular product they are looking for. Everything is about making sure we are the premium player across all segments. No favorites; they all have to be great.

But some are just so over the top, better than the competitors. I would call them category killers.

WE LIKE MANY OF YOUR CATEGORY KILLERS, AND WE ARE BIG FANS OF THEM. WE HAVE HEAVILY INVESTED IN THOSE BRANDS. THANK YOU, CHRIS, FOR YOUR WILLINGNESS TO SPEND TIME WITH US TODAY; THIS WAS VERY INSIGHTFUL.

