A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

Equity Research Hilton Worldwide Holdings: Paving the way for optimized growth through and asset light strategy

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Abstract

This Equity Research report aims to evaluate the equity value of Hilton Worldwide Holdings Inc (HLT:US). Hilton is one of the world largest hospitality companies and engages in: (i) managing hotels for third-party owners; (ii) licensing its intellectual property to franchised hotels within its network; and (iii) directly owning a portfolio of hotels across various locations.

The report stands for a SELL recommendation, with a 2024YE PT of 153.48/Sh., using a FCFF model, representing an expected negative total return over a 12-month period of -17% against the closing price of $177.23/Sh as of 15-Dec-23.

This price takes into consideration: (i) the Company’s expansion plans into emerging markets, with a focus on the Middle East market; (ii) the progressive adoption of an asset-light business model, shifting towards the Management and Franchise segment; (iii) the industry and business recovery post pandemic and war; and (iv) the company's constant dividends per share policy

The report included a sensitivity and scenario analysis to analyze the strength of the conclusions and assess and measure the risks faced by Hilton

Keywords: Hotels; Valuation; Price Target; Management and Franchise

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This report is part of the *Equity Research - Hilton Worldwide Holdings* report (annexed), developed by Marta Sofia Marques Dias and should be read has an integral part of it.

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Abbreviations

$ or USD		United States Dollar
A	ADR	Average Daily Rate
B	BoD	Board of Directors
	Bn	Billion(s) (as in "$'Bn")
C	CAGR	Compounded Annual Growth Rate
	CAPEX	Capital Expenditures
	CAPM	Capital Asset Pricing Model
	CEO	Chief Executive Officer
	CF	Cash Flow
	CO2	Carbon Dioxide
	CRP	Country Risk Premium
D	D	Debt
	DCF	Discounted Cash Flow
	DPS	Dividend Per Share
E	E	Equity
	EBIT	Earnings Before Interest and Taxes
	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
	ECB	European Central Bank
	EMEA	Europe, Middle East and Africa
	ERP	Equity Risk Premium
	ESG	Environmental, Social and Governance
	EV	Enterprise Value
F	F	Forecast (as in "2030F")
	FCF	Free Cash Flow
	FCFF	Free Cash Flow to the Firm
	FY	Fiscal Year (as in "FY 2022")
G	g	Long-run sustainable growth rate
	GDP	Gross Domestic Product
K	K	Thousand
L	LTI	Long-term Incentive
M	M&A	Mergers & Acquisitions
	MBV	Multiples Based Valuation
	MEA	Middle East & Africa
	Mn	Million(s) (as in "$'Mn")
N	NEO	Named Executive Officers
P	PP&E	Property, Plant and Equipment
	PT	Price Target
R	RevPAR	Revenue per Available Room
	RFR	Risk-free Rate
	ROA	Return on Assets
S	SAR	Special Administrative Region ("Hong Kong SAR")
	SARD	Sum of Absolute Rank Difference
	SBTi	Science Based Initiatives
	SMB	Small and Medium-sized Business
T	T&T	Travel and Tourism
	Tn	Trillion (as "$'Tn)
	TTM	Trailing Twelve Months
U	US	United States of America
W	WACC	Weighted Average Cost of Capital
Y	YE	Year Ended
	YoY	Year-over-year

1. Introduction

The present report constitutes my individual contribution, designated as Part 1, for the final report of the Master Thesis in Finance, which specifically centres on an Equity Research Report. The focus of this assessment is Hilton Worldwide Holdings Inc.

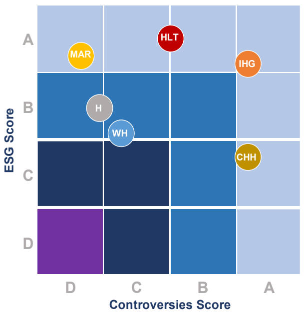
Part 1 is segmented into four key chapters revolving around the company and industry research and analysis: (i) Environmental, Social and Governance; (ii) Industry Overview and Competitive Positioning; (iii) Investment Summary; and (iv) Financial Analysis. I'll address Hilton's competitive positioning concerning ESG factors, the hospitality industry, including key trends and challenges, and execute a detailed financial analysis comparing Hilton with its closest competitors across specific financial metrics and ratios.

In parallel, my colleague's Part 1 Report comprises: (i) Company description; (ii) Valuation itself; (iii) Investment risk and risks assessment. Her report addresses the company and its structure and also covers future performance forecast, WACC computations, long-run sustainable growth and Terminal Value, FCFF, Multiples based valuation, and an assessment and measurement of investment risks.

As a conclusion, Hilton's transition toward an asset-light model and expansion strategies exhibited positive outcomes in profitability and operational efficiency. However, there's a need for further enhancement in cash flow generation. Additionally, the constant dividends per share policy might impact shareholder value creation. The final recommendation is to SELL with a 2024YE PT of 153.48/Sh.

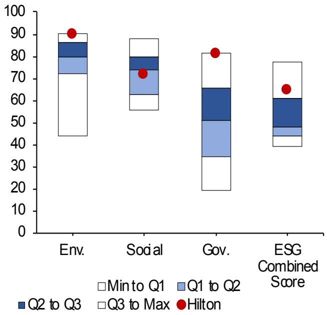
It is important to note that both of us played important roles in thinking and executing the final report, contributing extensively to both written content and the development of the excel model.

Figure 21 – Refinitiv ESG Score Matrix



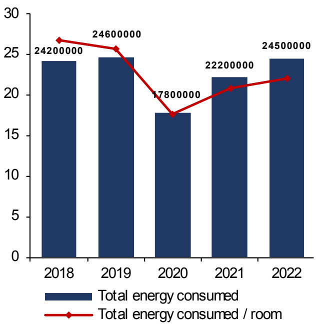
Source: Refinitiv and Author Analysis

Figure 22 – Hilton ESG Scores



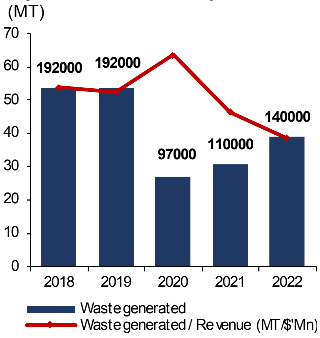
Source: Refinitiv and Author Analysis

Figure 23 – Hilton Energy Consumed (in gigajoules)



Source: Company Data

Figure 24 – Hilton Waste generation (MT)



Source: Company Data

2. Environmental, Social and Governance (ESG)

According to Refinitiv, Hilton has an ESG overall score of A-, and Controversies score of C+, which results in an **ESG combined score of B**[3] (Figure 21 and Figure 22). Hilton holds a favourable position compared to its direct peers, but its overall ranking is mainly influenced by a lower rank in the controversies pillar score.

2.1. Environment

Hilton demonstrates **strong Environmental scores**, both in **absolute terms and relative to its peers** (Appendix 2.1). Hilton's Environment policy targets a review in emissions goals every 5-years, in line with the Science Based Target Initiatives (SBTi) requirement. The Company has both in **Emissions and Resource Use an A score**. So far, Hilton has largely reduced their carbon footprint and energy consumption by **-44%** and **-35.7% in 2022** (from 2008 baseline), through various investments in renewable energy, including the: (i) installation of solar panels in Waldorf Astoria Resort; (ii) placement of EV charger stations in various hotels; and, (iii) the transition to LED lighting bulbs. These results contributed to consistent reductions in total energy consumed per room, with a **-4.8% CAGR in the 2018-22 period** (Figure 23), and in CO_2 emissions by a **-0.3% CAGR over the same period** (Figure 25). The lower CAGR in CO_2 emissions is the result of the increase in consumption in 2021 and 2022 as the business recovered from the impact of the global pandemic. Additionally, **in 2018-22, waste generation has declined at a -7.6% CAGR** (Figure 24), especially attributed to Digital Key share feature.

In total, Hilton has saved **$1.38 Bn since 2009** in watts, water and waste costs.

2.2. Social

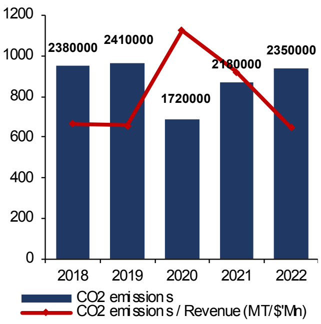
While Hilton's Social Pillar B+ score is **positive in absolute terms**, it **is slightly below peer's score**. **Improvement opportunities** were identified, particularly in the **product responsibility** (Appendix 2.1) including deficiencies concerning (i) assessment of supplier ESG risk and performance; and, (ii) data security (breaches). Additionally, controversies related to: (i) business ethics; (ii) discrimination; (iii) trafficking; and, (iv) harassment were raised.

Nonetheless, **substantial progress** was identified in other areas, including **Workforce and Community**, with consistent **development** of learning and **career growth opportunities**, **increasing women and minorities** not only in the workforce but in leadership levels, and **consistent donations to the communities**. Hilton is ranked the #2 Best US Company to Work for and the #1 in 29 countries, US Best Place to Work for Disability Inclusion, and first and only hospitality company for ESG on the Supplier Diversity list.

[3] The Refinitiv ESG methodology scores ranges from D to A, being D the worse score and A the best Score. The ESG Combined Score is derived by combining the weighted average of the ESG Overall Score with the ESG Controversies Score. The ESG Overall Score combines the weighted average of three pillars: Environment, Social and Governance.

2.3. Management and Corporate Governance

Figure 25 – Hilton CO2 Emissions (MT)



Source: Company Data

Hilton outperforms its peers with the highest **Governance Score**, particularly in areas related to Management and Shareholders (Appendix 2.1). Hilton follows a **CEO-Chairman Structure**, where Mr. Christopher J. Nassetta serves as CEO and the Chairman position is held by Mr. Gray, a commonly observed practice within the hospitality sector.

The Board of Directors (BoD)

The **CEO is the only executive member**, and the lead independent director serves as a link between the CEO and independent and non-management directors, with **78% of directors being independent**. The board is supported by fully independent committees: (i) Audit Committee; (ii) Compensation Committee; and, (iii) Nominating & ESG Committee. **Annually**, the **BoD is subject to elections** at the annual meeting of stockholders.

Table 3 – Hilton Board of Directors

Hilton's BoD	
Name	**Start Year**
Board of Advisors	
Chrlistopher J. Nasseta	2007
Jonanthan D. Gray	2007
Douglas M. Steenland	2009
Charlene T. Begley	2017
Chris Carr	2020
Melanie L. Healey	2017
Raymond E. Mabus Jr.	2017
Judith A. McHale	2013
Elizabeth A. Smith	2013

Source: Company Data

As referred to, the BoD considers **separation of the roles of the Chair and CEO** as the most appropriate leadership structure, however there is **no policy on whether the roles should be separated or combined**. Additionally, the **extended length of the mandates** of the Chairman position (Table 3) and the **number of external public company roles** held by members of the entire board can be seen as a **governance red flag** (Appendix 2.2).

Nevertheless**,** there is **no evidence indicating potential conflicts of interests** concerning the private interests of the BoD members. The board members exhibit a diverse **mix of backgrounds**, **knowledge**, **skills** and **expertise**.

Table 4 – Hilton Officers

Hilton's Officers	
Name	**Function**
Corporate Officers	
Chrlistopher J. Nasseta	CEO, President
Laura Fuentes	Executive VP, CHRO
Kristin A. Campbell	Executive VP, General Counsel & Secretary
Kevin J. Jacobs	CFO & President,
Matthew W. Schuyler	CBO
Christopher W. Silcock	Executive VP, CCO

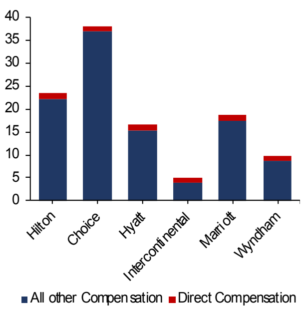
Source: Company Data

The Management

Mr. Christopher J. Nassetta is the President and CEO since 2007. The remaining officers at Hilton demonstrate a **wealth of experience in both the industry and the Company**, with **tenures reaching 17 years**. Hilton's Named Executive Officers ("NEO") include: (i) Kristin A. Campbell; (ii) Laura Fuentes; (iii) Kevin J. Jacobs; (iv) Matthew W. Schuyler; and, (v) Christopher W. Silcock (Table 4).

The Management Compensation

Figure 26 – CEO Compensation ($'Mn)



Source: Company Data

Hilton's management compensation program applies to the NEOs, and it is a combination of cash and equity composed by: (i) Base Salary; (ii) Annual Cash Incentives; (iii) Long-term incentive ("LTI"); and, (iv) other benefits and perquisites.

In 2022, Hilton's total reported CEO compensation amounted to $23.5Mn, from which $1.3Mn were direct compensation and $18.3Mn (78%) corresponded to LTI in form of stock options and options awards. **Direct compensation aligns with industry's average pay standards** (Figure 26).

ESG impacts on valuation

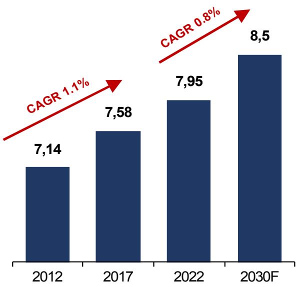
Given Hilton's good ESG performance compared to peers, a specific recommendation for ESG conscious investors was created, applying **adjustments to the cost of equity in the primary FCFF model**, using a proxy of Damodaran's **Virtuous Cycle Scenario** (Appendix 7.7).

3. Industry overview and competitive positioning

3.1. World economic outlook

World Population

Figure 27 – World Population (Bn)

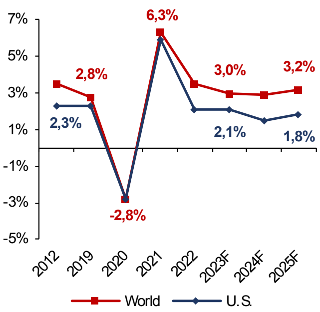


Source: United Nations; World Bank

The **global population increased from 7.14 to 7.95Bn in the 2012-22 period**, growing at a **1.1% CARG** over the last decade. The world population is projected to reach **8.5Bn in 2030F**, with an **expected 0.8% CARG** (Figure 27).

GDP growth and Inflation

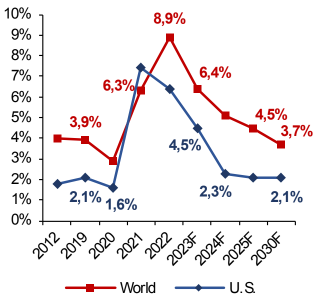
Figure 28 – Real GDP Growth Forecast Word vs US



Source: IMF

In the period 2012-19 global real GDP remained relatively stable, with growth rates ranging between 2.8% and 3.8% (Figures 28). However, the **COVID-19 had a significant impact on the world economy**, leading to a sharp decrease in real GDP to -2.8% YoY, with emphasis on European countries (-5.5% YoY). Vaccination rates, government support, digital transformation acceleration and the reopening of contact-intensive activities contributed to a **recovery in 2021** (6.3% YoY). In 2022, the war in Ukraine, alongside additional factors such as the emergence of new COVID-19 variants and reintroduction of mobility restrictions, caused a **substantial deceleration in global growth and exacerbated inflationary pressures**, with **Europe being one of the most affected regions.** A **decline in GDP growth rate is expected in the years 2023-24F**, with increasing interest rates and the wars in Ukraine and Israel continue to pose challenges to economic activity. Nevertheless, China's recent reopening in 2023 is expected to partially mitigate the anticipated decline in real GDP growth.

Figure 29 – Inflation World vs US



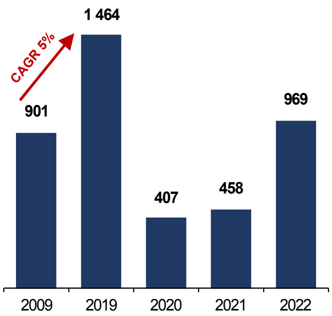
Source: IMF

High commodity prices, as a result of war, and expanding price pressures contributed to inflation of 8.9% YoY in 2022YE (Figure 29). However, the **inflation rate is expected to slow down in the period of 2023-30F**, considering gradual monetary policy adjustments, normalization of global supply chains and enhanced global economic resilience.

World Hotel Demand

Travel and tourism GDP is predicted to grow, on average, **at 5.8% YoY between FY2022-32F**, **surpassing the growth of the overall economy** at an expected 2.7% YoY (Appendix 3.1).

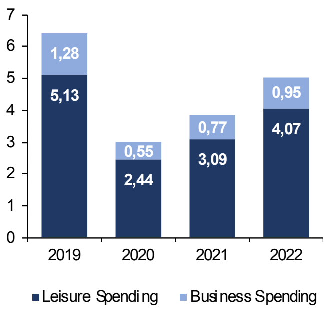
Figure 30 – International Tourism Arrivals (Mn)



Source: Worldwatch Institute

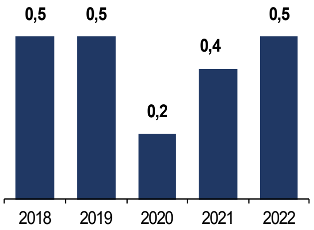
The **international tourist arrivals experienced substantial growth between 2009-19FY**, representing a **CAGR of 5%** (Figure 30). However, the **global travel and tourism sector experienced a significant setback in 2020** because of the impact of the coronavirus pandemic and lockdown measures. This led to a notable **decline in** both **global international tourism arrivals** (**-72.2% YoY**) and a corresponding **-53.4% YoY decrease in global travel and tourism spending** (Figure 31). The global travel and tourism sector **started its recovery in 2021**, however, the **pace was slower than anticipated**. This was attributed, in part to, to challenges posed by the Omicron variant, stringent and inconsistent border restrictions, and a lack of coordinated efforts among governments to address the ongoing pandemic. Despite the challenges the sector has been facing, the **outlook is positive**. **In 2022**, the travel and hospitality industry experienced a **steady rebound in performance**. **Recovery and growth on world hotel**

Figure 31 – Travel and Tourism Spending ($'Tn)



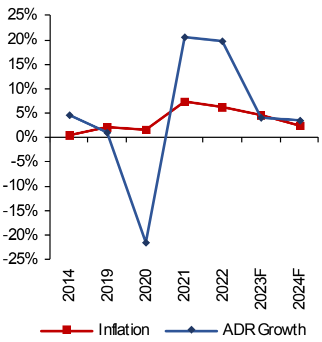
Source: World Travel & Tourism Council

Figure 32 – New Rooms Supply (Mn)



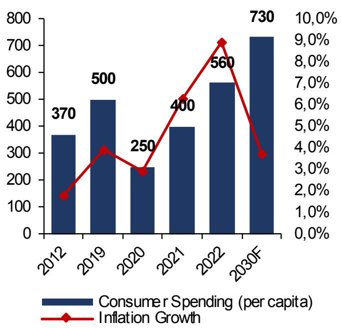
Source: STR

Figure 33 – US Inflation vs ADR growth



Source: IMF & PwC – "Hospitality Directions US"

Figure 34 – US Inflation vs Consumer Spending per capita



Source: IMF

demand is expected to continue and to reach 80% to 95% of pre-pandemic levels in 2023F depending on the extent of the economic slowdown[4].

World Hotel Supply

Supply in the hotel industry is represented by the number of hotels/ rooms worldwide. **Changing market conditions**, with **rising construction costs**, **increasing financing costs**, and **fewer financing options** caused by recent turmoil in the banking industry, have posed challenges to the supply growth of new hotel rooms. Additionally, **market uncertainty**, along with the **ongoing recovery from the COVID-19 pandemic**, contributed to a **decrease in the growth of new hotel supply** (Figure 32). **New supply growth** is expected to **rise above the 2022 level increase**, but it is **expected to be considerably slower than the amount of new supply growth experienced before the COVID-19 pandemic** during the 2023-25F period[5].

Hotel Prices

Hotel industry prices are **subject to significant levels of volatility**, which tend to reflect the interplay between industry demand, supply, and the macroeconomic environment.

In 2020, due to the coronavirus pandemic and lockdown measures imposed by governments, the **average world hotel prices decreased sharply**. With the ease of restrictions and higher demand, alongside inflationary pressures, **in 2021**, **hotel prices rose without returning to pre-pandemic levels**. **Hotel prices exceed pre-pandemic levels in 2022 and are expected to continue to rise by 2024**, **accounting for inflation and high interest rates** (Figure 33).

Macroeconomic snapshot for valuation purposes

US

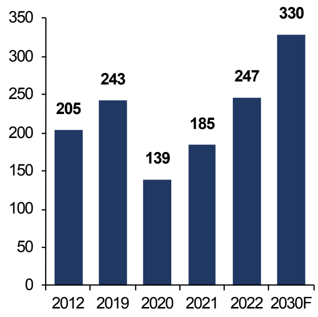
During the **FY2012-19 period**, the **US economy demonstrated stability**, marked by an **average GDP growth of 2.3% YoY** (Figure 28). However, the COVID-19 pandemic significantly disrupted this trend, resulting in a **-2.8% decrease in Real GDP in 2020**. In 2021, as economic activities reopened, the country experienced a robust recovery, but this was accompanied by high inflation rates, surpassing the average global inflation (Figure 29). **By 2022, the pace of economic growth decelerated**, and this trend is **expected to persist in the 2023-30F period**. Also, **expectations include a reduction in inflation rates**, tied to weakening services activity and a manufacturing slowdown, contributing to softened labour markets and an overall economic slowdown. A **decline in inflation is projected to boost consumer spending on accommodation**, **reflected in 3% CAGR FY2022-30F** (Figure 34).

Europe

In 2022, Europe annual inflation reached 9.2%, the **highest level ever measured**, primarily attributed to supply shocks related to the COVID-19 pandemic and Russia's conflict in Ukraine. However, inflation is expected to gradually decrease and then stabilize in the forecasted years, as a result of cost pressures and monetary policy measures implemented by the European

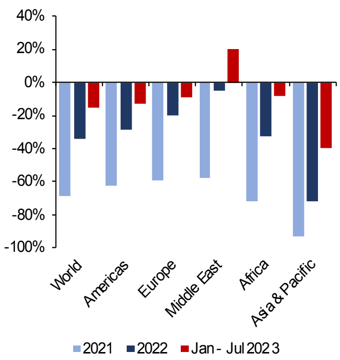
[4] According to CBRE
[5] According to The February 2023 edition of CBRE's Hotel Horizons® projections

Figure 35 – Europe Consumer Spending (per capita)



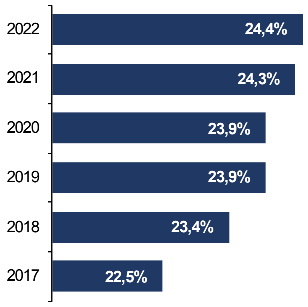
Source: IMF; World Bank; UN; Eurostat

Figure 36 – Change of Tourist Arrivals 2019



Source: UNWTO

Figure 37 – Combined Market Share of TOP 5 Branded Hotels



Source: STR

Central Bank (ECB). With the expected stabilization of inflation growth, a projected recovery in household income and private consumption, alongside strengthened foreign demand, **Real GDP growth is also projected to stabilize, above the world average Real GDP growth** (Appendix 3.1). **Consumer spending on accommodation is expected to grow at 3.7% CAGR FY2022-30F** (Figure 35).

MEA

In 2023F, it is anticipated a **decline in pace of Middle East Real GDP growth to 1.6%**, marking a significant slowdown compared to the 6.5% recorded in 2022YE (Appendix 3.1). This shift is attributed to the **reduced oil production among exporting countries** and the **implementation of stricter policy measures within emerging markets and middle-income economies across the region**. Nevertheless, the Middle East is **projected to be the region with the highest growth of +10% CARG 2023-30F**. It is important to note that the **development of the Gaza Conflict could** introduce uncertainties that may impact and potentially **decelerate this growth trajectory**.

Regarding tourism activity, the **Middle East's tourism sector has experienced the most substantial post-pandemic rebound globally** (Figure 36) achieving complete recovery in tourist arrivals in the Q1 2023, especially due to the FIFA World Cup. Tourism sector is **projected to grow above other regions** due to heavy government investments, infrastructure development and the digital transformation. However, **the emerging war in Israel could also weight on the hotel demand**, not only in the country but also in the broader MEA region, **impacting occupancy rates**.

Asia & Pacific

Overall economy of the Asia & Pacific region is **projected to grow at an average rate of 4.1% in 2023-30F**, **above the world average Real GDP** (Appendix 3.1). Enhanced consumption and increased investment are boosting recovery in many regional economies, mitigating the impacts of inflation.

Contrary to the trajectory in the Middle East, Asia & Pacific region is experiencing a **slower tourism recovery in 2023** (Figure 36). Although tourism activity is trending upward, this delay is mainly **attributed to the gradual reopening and economic recovery in China**, which served as the world's largest source of international tourism before the pandemic.

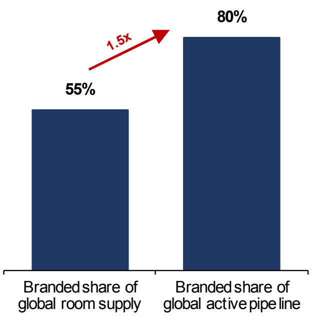
3.2 Hospitality industry overview

Industry Structure

The hotel industry is **fragmented** (Figure 37), composed by **diverse property types catering to various market segments and consumer preferences**, with the presence of independently operated properties not affiliated with major hotel chains or franchises.

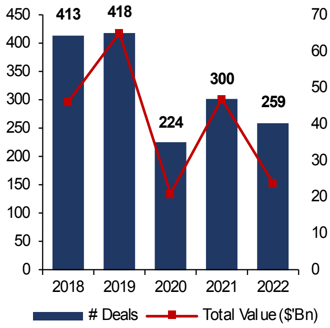
The **total branded hotels represent a significant portion of the global room supply** with share expected to further expand to 80% considering active pipeline (Figure 38). Branded hotel

Figure 38 – Branded Hotels Share



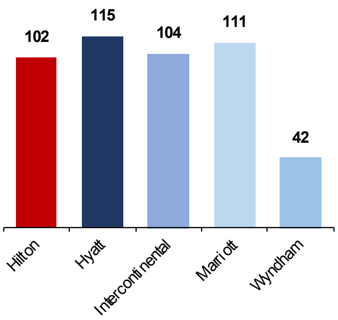
Source: STR

Figure 39 – M&A Activity in the Hospitality Industry



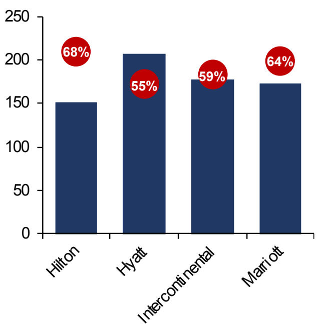
Source: Bloomberg

Figure 40 – RevPAR ($) 2022



Source: Company Data

Figure 41 – ADR ($) and Occupancy Rates (%)



Source: Company Data

penetration has consistently risen as a long-term trend, and this upward trajectory is anticipated to persist as consumers seek trusted brands to align with their evolving expectations. The **top five hotel groups**, including Hilton, **have increased their market share from 22.5% in 2017 to 24.4% in 2022**, as percentage of global rooms supply, contributing to **heightened barriers to entry** within the market (Figure 37). **Competition remains fierce in the branded segment**, with major players actively pursuing growth through a mix of organic expansion, partnerships, and acquisitions.

Mergers and Acquisitions in the Industry

Mergers and acquisitions are one of the most used hotel companies' growth strategies, which enable (i) **efficiency in capital allocations**; (ii) **enhancement of portfolio**; and, (iii) **organizational effectiveness**, that builds **competitive advantage** in the market and creates value to the shareholders.

Throughout the years, the **number of M&A deals and value had been relatively steady** (Figure 39). However, the pandemic disrupted the trend, compelling investors to retain their liquidity positions and consequently suspend their investment activities, which resulted in a significant decline in M&A deals. In 2021, there was an increase in M&A deals, driven by the imperative for smaller, independent hotels to align with more established brands as a strategic response to overcome the repercussions of lockdowns.

In 2022, the hospitality sector experienced a **shift in deal dynamics**, with a focus on asset purchases and smaller-scale deals, due to higher interest rates, soft business travel, labour shortages, high economic uncertainty and discrepancies in asset valuations. Although the number of deals only slightly decreased by 14%, this shift resulted in a **substantial decline in the total deal value** by **-50%**. Looking forward the sector is anticipated to adjust to the reality of higher interest rates, with an **increase in deal activity**. The third quarter of 2023 has already experienced an increase in the number of deals by 19% compared to the previous quarter.

Industry Key Drivers of Profitability

As mentioned in section Company Key Drivers of profitability, industry key drivers of profitability are (i) **Room sales**; and, (ii) **Asset efficiency**.

Regarding room sales, **Hilton falls short compared to its peers**, considering t**he average RevPAR** of hotels in 2022. While maintaining the highest occupancy rate, Hilton's RevPAR is notably lower **due to its ADR**, which is **comparatively lower than that of its peers** (Figure 40 and Figure 41). Nevertheless, **Hilton has an advantage** over its peers in terms of **asset efficiency**, as described previously (Figure 11).

Industry challenges and opportunities

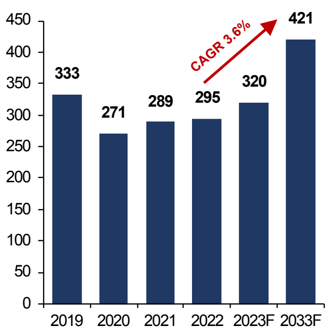
The COVID-19 pandemic resulted in a combination of a **supply shocks, an unprecedented decline in demand and a worldwide humanitarian emergency**. The coronavirus pandemic shaped the travel and tourism industry which has entered in an era defined by **digital solutions and technological advancements**, **powerful competition**, **labour shortage** and **growing emphasis on sustainability**.

Sustainability

With growing public and government pressure and the number of guests looking for guarantees that they are in places that respect the environment, the **imperative around sustainability will only increase**. Hospitality companies will have to **demonstrate their dedication to sustainable practices** and **transparency in their environmental initiatives, responsible resource management,** and **eco-friendly operational strategies will be crucial**.

Labour Shortages

Figure 42 – Number of Jobs in T&T Sector



Source: World Travel & Tourism Council

Table 5 – Shortfall as % of Labour Demand

	Labour Demand (K)	Gross Shortfall (K)	%
EU	11,236	-1,192	11%
USA	6,274	-412	7%
UK	1,792	-128	7%

Source: World Travel & Tourism Council

The travel and tourism industry faced adverse effects in 2020 due to travel restrictions, mandatory COVID-19 tests, and quarantine mandates. **As tourism activities declined**, **hotel companies experienced a sudden drop in revenues**, leading them to **reduce their workforce to sustain operations**. Despite demonstrating resilience in the most recent years, the hospitality industry continues to face a **prolonged and widespread labour shortage,** a key challenge for the industry, which constrains the industry’s growth and recovery from COVID-19 (Figure 42).

The existing shortage of labour can be attributed to a combination of factors, including **the movement of workers to other sectors**, because of the **number of layoffs during the pandemic** and in result to the **specific characteristics of jobs within the hotel industry**. Seasonal fluctuations and inadequate regulation contribute to the informal nature of tourism jobs, leading to challenging work conditions such as long hours, low compensation, high turnover rates and limited social security. Additionally, irregular shifts, night schedules, and temporary positions are common within the industry. Other factors such as **travel restrictions causing a decline in the number of migrant workers**, equivalent to approximately 20% of the hospitality sector's workforce in the US before the pandemic[6], coupled with the **slow rehiring of displaced workers**, have created a **significant imbalance between the demand for and the supply of labour in the industry** (Table 5).

To prevent persistent shortages, it is crucial for businesses in the hospitality sector to **adopt and maintain policies supporting labour mobility**, **flexible and remote work**, **ensuring decent work conditions** and **safety** and fostering **employee learning and development**. Also, **the growing adoption of digital solutions and automation presents a potential opportunity** to bridge the labour gap and address these persistent challenges.

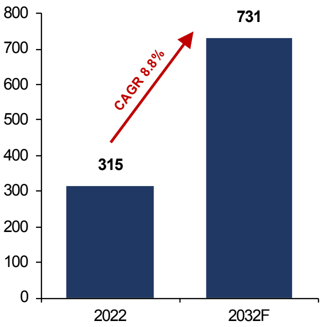
However, **the adoption of these measures may impact the hospitality industry sector**. Implementing policies to enhance labour mobility, facilitate remote work, and ensure decent work conditions might lead to **increased personnel costs**. **Staff wages have been increasing since 2020**, showcasing significant growth across various markets, with the UK as a notable example recording a 53% increase in weekly salary between 2012 and 2022. Consequently, **profit margins may decelerate**, as costs, driven by inflation and labour expenses, grow at a higher pace than ADR. Also, investments in **CapEx are expected to increase**, due to the increased adoption of new technologies and automation processes to enhance operational efficiency.

[6] According to The World Travel & Tourism Council, prior to the pandemic, foreign-born workers constituted 16% of the tourism workforce in the UK and the EU and nearly 20% in the USA

Trends

Bleisure Travel

Figure 43 – Bleisure Market Size ($'Bn)



Source: Allied Market Research

The **convergence of remote work** as a mainstream phenomenon and the **rise of digital nomads** has significantly impacted the hospitality industry, leading to the **emergence of the "bleisure" travel**. As more individuals work remotely, the opportunity to combine business with leisure travel has become increasingly appealing, with an expected bleisure market growth at **8.8% CAGR 2022-32F** (Figure 43).

Due to the flexibility offered by remote work arrangements, there has been a **shift in the length of stay**, with around 55% of business travellers intending to extend their trips post-pandemic to improve work-life balance[7]. Additionally, the trend is expected to lead to a **rise in interest for secondary markets and resort destinations**, especially all-inclusive properties.

The sector's ability to recognize and cater to the evolving demands of digital nomads and bleisure travellers is crucial for capturing **additional room nights and ancillary revenue**, presenting a **lucrative opportunity for the hospitality industry to redefine the guest experience**. For instance, **hotels are adapting** to cater to the unique needs of bleisure travellers by providing amenities that support both work and relaxation, including workspaces, and expanding their range of offerings, such as embracing extended-stay concepts.

Technology and Innovation

Future hotels are embracing **technological integration to streamline services and improve guest convenience**, including the adoption of mobile apps for frictionless check-ins, room assignments through smartphones, and the elimination of traditional front desk processes. The trend extends to the **automation of in-room features**, with adaptable furniture that transforms for various uses, from daytime meetings to night-time social events, as well as the **integration of technologies like virtual reality**.

These advancements respond to changing traveller preferences, offering a more efficient, enjoyable and personalized hotel experience. Today's travellers seek more personalised, seamless interactions with hospitality providers, with 80% emphasizing the significance of being able to book their entire trip online[8]. This quest for personalization extends to the selection of accommodations, with guests showing a growing preference for rooms that cater to their unique preferences and needs.

ESG as a priority

Anticipating a growing emphasis on sustainability, the hotel industry is undergoing a paradigm shift where **environmental considerations become a top priority**. This trend highlights the **increasing demand from both business and leisure guests for assurances that their accommodations align with eco-friendly practices**. Consumers are increasingly willing to switch from brands that do not align with their values and are ready to pay a premium for those

[7] According to a trend listed by Forbes in 2022

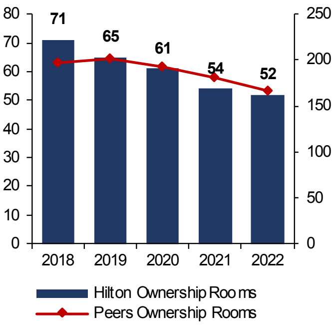
[8] According to Hilton's research

that do[9]. For instance, 87% of global travellers express a preference for sustainable travel, with 68% actively seeking eco-friendly hotels, according to research by Booking.com.

With a growing interest in green standards for hotels and the inclusion of eco-certifications in search results by Google and Booking.com, customers are increasingly likely to opt for environmentally friendly choices. Therefore, as a key factor influencing the segmentation of successful and less successful establishments, **hotels are expected to proactively address environmental concerns**, and failure will make them vulnerable to greener competitors.

Asset-light Strategy

Figure 44 – Asset-light Strategy



Source: Company Data

In recent years, companies are strategically **transitioning from asset-heavy to asset-light business models** (Figure 44). This shift allows companies to achieve **accelerated growth** while **minimizing both capital investment and the associated risks linked to hotel ownership**. By embracing an asset-light approach, hotel companies can leverage partnerships, franchise agreements, and management contracts, enabling them to **expand their footprint without the burdens of significant capital expenditures and operational responsibilities**. This trend not only fosters flexibility in adapting to market dynamics but also aligns with a broader industry evolution towards more scalable and sustainable business models in the competitive landscape.

3.3 Competitive positioning

Peers Identification

Table 6 – Hilton Peers

Name	Market Cap ($'Bn)
Hilton	43
Peers	
Choice	6
Hyatt	11
Intercontinental	12
Marriott	60
Wyndham	6

Source: Bloomberg

For the competitive positioning analysis, it was considered all reported main competitors in Hilton's 2022 Annual Report for the identification of the Company peers. Additionally, procedures were performed for a MBV, including a SARD approach, leading to the following group of peers: (i) Choice Hotels International; (ii) Hyatt Hotels Corporation; (iii) Intercontinental Hotel Group; (iv) Marriott International; and, (v) Wyndham Hotels & Resorts (Table 6).

Industry corporate strategies

Growth strategies of peers are similar to Hilton's, including: (i) **EMEA and Asia & Pacific operational expansion**, and, (ii) **guest loyalty programs**. From 2021 to 2022, industry average growth rate in EMEA and Asia & Pacific markets was 11% and 8%, respectively, as total number of rooms. In the Asia & Pacific region, Hilton stands out from all other peers, with a growth rate of 16%. Additionally, loyalty programs are prevalent among the five peers and are comparable to Hilton Honors (Table 1).

A less commonly agreed-upon approach within the industry is whether to grow through acquisitions or internal development. In recent years, on the **opposite side of Hilton, most of the Peers have been using M&A to build their expansion**. Hilton itself used this strategy in the past, but the substantial growth in the number of brands in the last 5 years has resulted in superior return on invested capital compared to the median of its peers (Figure 10).

[9] According to Accenture research

Porter's 5 forces (Figure 45)

1.Threat of new entrants | Low (2)

The potential threat from new entrants in the industry is relatively low, considering:

- **Required substantial capital investment,** as hotel industry demands substantial financial investment for both development and operational phases of properties. This includes expenses for construction, furnishings, and ongoing maintenance to ensure competitive establishment (Figure 46).
- The Ownership and Management & Franchise segments of the Hospitality industry display **economies of scale**, evidenced by an average decline of 4% CAGR FY18-22 in cost per number of rooms (Figure 47). Therefore, a new entrant would face challenges in matching established peers' extensive network of hotels, which is necessary to breakeven and dilute the costs associated with managing the operations.
- **Establishing guest loyalty is challenging**, because the industry is full of robust brands with devoted customers, that incentivized by rewards of guest loyalty programs, may be reluctant to transition to lesser-known alternatives.
- Compliance with **regulatory and government policies** is a significant aspect of the hotel industry, involving strict adherence to zoning laws, rigorous safety protocols and licensing requirements, which represent a long-term journey and protect the current players.
- As new entrants join the market as a viable threat, it is anticipated that **existing players retaliate**. Established players, backed by significant financial resources, are capable of overcoming most strategies employed by newcomers or opt to acquire, a common practice in the industry.

2.Bargaining power of buyers | Medium – High (4)

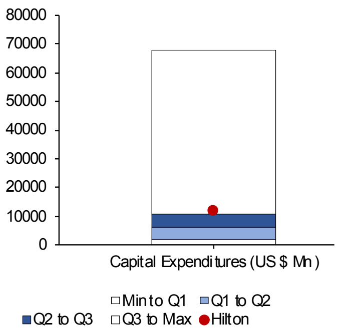
Bargaining power of buyers is medium to high, due to the following factors:

- **Economic conditions and price sensitivity,** because during economic downturns or periods of uncertainty (ex: recession periods), buyers may become more price sensitive (Figure 48). The increased emphasis on affordability amplifies client's negotiation strength.
- **Massive group of different kinds of buyers,** comprising a wide range of demographics, including, individual, family, business, and leisure travellers. With a wider range of brands that target different types of customers with different preferences (Appendix 3.2), major players, such Hilton and its five peers, benefit from having a larger pool of different types of users.
- This industry is characterized by **seasonal demand and occupancy rates.** Therefore, during off-peak seasons or periods of low demand, occupancy rates decrease but monthly ADR changes are essentially non-existing across the year (Figure 49), indicating that buyers have limited leverage in negotiation rates in off-season periods.
- Clients can **easily access alternative accommodation options**, having numerous

Figure 45 – Porter's 5 Forces

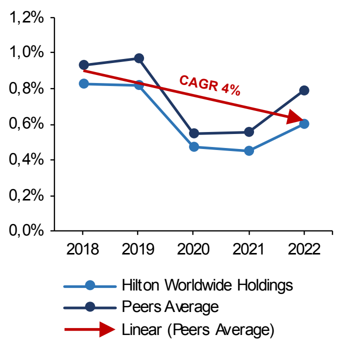
Source: Author Analysis

Figure 46 – Hotels & Other Industries Average CapEx ($'Mn)



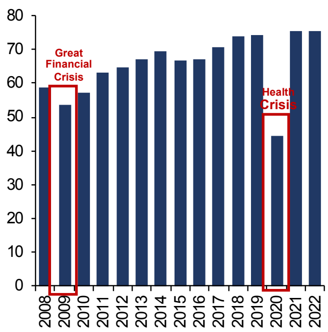
Source: Damodaran and Author Analysis

Figure 47 – OpEx per number of rooms (%)



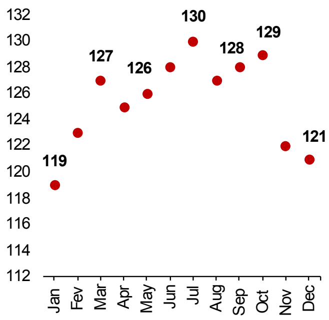
Source: Company Data

Figure 48 – Consumer Spending ($ per capita)



Source: IMF, World Bank, UN, Eurostat

Figure 49 – Monthly ADR ($)



Source: STR, monthly average US markets 2015-17, inflation adjusted

alternatives that can easily be compared through online booking platforms, **with associated low switching costs** between alternatives, clients have a strong negotiation position.

However, certain factors might counterbalance the buyer's power, including the guest loyalty programs.

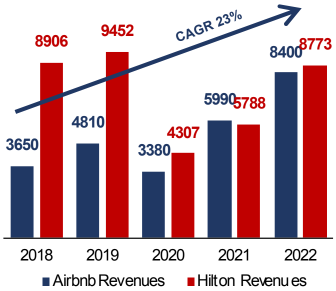
3.Bargaining power of suppliers | Medium (3)

The Bargaining power of buyers is medium, considering:

- Typically, industry players engage with a **massive group of different suppliers** for various goods and services, which moderates the individual bargaining power of each supplier.
- Suppliers linked to Hilton's **brand partnerships**, offering exclusive services, may have a certain degree of bargaining power. The uniqueness and value of the partnerships, especially for the offers of guest loyalty programs, can influence negotiations. **Hilton Honours' principal partners include American Express, Amazon and Lyft**.
- **Online platforms**, such as Booking, act as indirect suppliers for hotels, providing them with clients who book their stays through these platforms, which hold a significant power in increasing fees for this service.

4. Threat of substitute products | Medium – High (4)

Figure 50 – Revenues ($'Mn) Hilton vs Airbnb



Source: Company Data and Airbnb Data

The actual threat of substitute services is medium-high, given that:

- **Traditional accommodations maintain significance** due to the overall experience provided, including security and standardized level of service.
- The **popularity of alternative stays**, such as vacation rentals and unique lodging experiences, that are provided by substitute companies, may pose a long-term threat as travellers increasingly seek diverse accommodation options. One of the **primary concerns regards on Airbnb, which has experienced a 23% increase in revenues** over the last 5 years (Figure 50).

5. Rivalry among existing competitors | High (5)

- There are numerous players in the industry, and most of them demonstrate comparable size and influence (Table 6).
- The industry is marginally expanding, and companies find themselves in a **competitive struggle to secure additional market share** (Appendix 3.3).
- The competitive landscape often triggers **price wars** and aggressive discounting strategies to attract customers, which impacts profit margins of Hilton and its competitors.

SWOT Analysis

Figure 51 – Swot Analysis

Strenghts

- Strategic segments and partnerships
- Strong brand comprehensive portfolio
- Corporate social responsibility

Weaknesses

- Business seasonality
- High level of indebtness
- Linked controversies

Opportunities

- Expansion in emerging markets, particularly MEA
- Presence in long-term lodging market (ex: H3 Project)
- Opportunities linked to organic growth and tailored brands for customers.

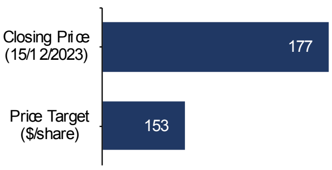
Threats

- Geopolitical tensions
- Israel war may possibly threat MEA expansion
- Fierce competition
- Cyber risk
- Labour shortages

Source: Author analysis

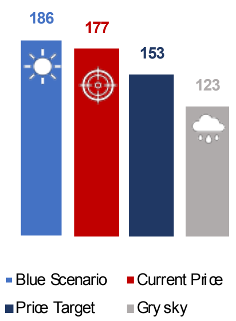
4. Investment summary

Figure 52 – PT Vs Current Price



Source: Author Analysis

Figure 53 – Blue and Grey Scenario



Source: Author Analysis

Table 7 – Blue and Grey Scenario Assumptions

Scenario Assumptions		
Description	Blue	Grey
Room Sales per Night	+$10 per room	-$10 per room

Source: Author Assumptions

The recommendation of the **base case for Hilton is to SELL**, corresponding to a **2024YE PT of $153/Sh.**, representing a **total shareholder return of -17%, within the next 12 months**, against the closing price of $177/Sh. (15/12/2023) (Figure 52) .

The valuation is contingent on rooms sales value, therefore a Blue and Grey Scenario was performed. Projections for a **Blue and Grey Scenario** were established based on the assumptions of Table 7, resulting in 2024YE PT of $186/Sh. and $123/Sh., respectively (Figure 53).

Despite the base case SELL recommendation, Hilton holds a strong position within its industry, and it is expected that it will continue to grow its market presence and increase operational efficiency, through the strategic expansion into emerging markets as well as the progressive adoption of an asset-light business model. The SELL recommendation is mainly based on the following key pillars:

- **Constant dividends per share,** that are reliable yet questionable, primarily due to the ongoing increase in EPS. The consistent rise indicates that shareholders may experience a continual decrease in the pay-out ratio over the years.
- **Skyrocketing share price over the past six months**, moving from $140/Sh. (20/06/2022) to $177/Sh. (15/12/2023), which might indicate a peak in the market enthusiasm. Therefore, shareholders could consider capitalizing on this peak by selling their shares, avoiding losses before potential shifts in market sentiments.

Valuation Methods

The absolute methodology**, FCFF discounted at WACC,** was used as the base case model (Appendix 5.8). Moreover, **two different Multiple Based Valuations** including (i) Current TTM MBV; and, (ii) Forecast 2024F MBV (Appendix 5.11). However, the relative valuation methodologies were **not considered significant in the recommendation decision**.

Investment Risks

Hilton is exposed to significant risks that must be highlighted to investors. The Company is **highly**

sensitive to variations in room sales price per night. Furthermore, there is evidence that the **Israel-Palestine war can harmfully affect Hilton's operations** in surrounding areas.

5. Financial analysis

The following analysis is conducted through two distinct comparative perspectives: (i) Hilton vs Direct Peers, comprising peers actively embracing an asset-light strategy – Hyatt, Marriott, and Intercontinental; and (ii) Hilton vs Franchisors, i.e., hotels exclusively managing and franchising properties, including Wyndham and Choice Hotels.

Capital-light leads to higher profitability

Hilton has historically maintained higher gross margins compared to its peers. However, the COVID-19 pandemic resulted in a significant **decline to 12%**, **falling below industry peers** (Figure 69). The recovery in occupancy rates and cost cutting measures not only enabled Hilton to fully recover its pre-pandemic margins but also surpass them, showcasing its **outperformance compared to industry peers**. With the progressive transition to asset-light business model, **gross margins are expected to gradually increase and further stabilize to 37%. Profit margins** and **net profit margins** are expected to follow the same trend in 2030F, stabilizing to **25%** and **21%**, respectively (Figure 70 and Appendix 6.2). The increase in margins is highlighted by the performance of peer franchisors, who exhibit higher margins, indicative of heightened operational efficiency (Appendix 6.3).

Despite having slightly higher margins than its closest competitors, the **ROA is not significantly high** (**9%**), primarily due to the **impact of asset turnover** (Figure 71). Hilton's lower asset turnover compared to its peers is associated with the less efficient use of assets, in exception of **PP&E, where Hilton demonstrates considerably more efficiency than its peers** (Figure 11). The gradual implementation of an asset-light approach reduces the need for significant capital investments, providing greater scalability and operational flexibility, which, in turn, enhances asset utilization and overall efficiency, as illustrative in Appendix 6.3.

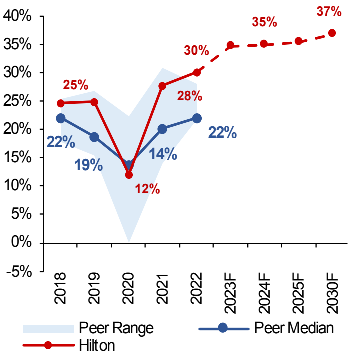
Building financial resilience

Prior to the pandemic, Hilton held the **highest leverage among its peers**, with a Debt-to-market Equity exceeding industry ranges. However, in the 2018-22 period, **Hilton's leverage decreased to a 28% Market D/E** (Figure 72). The **capital structure is expected to remain constant**, aligning with the industry median.

The **Net Debt-to-EBITDA ratio**, consistently surpassing industry peers except for the pandemic year of 2020, is **projected to decrease in the 2023-30F period, from 3.75x to 2.88x**, considering the **expected growth in EBITDA** (Figure 73). The contrasting financial impacts in 2020 highlight the **resilience of the asset-light model during economic stress**, which results from the asset-light models having distinct financial structures and lower risk profiles compared to hotels with heavier asset ownership (Appendix 6.3).

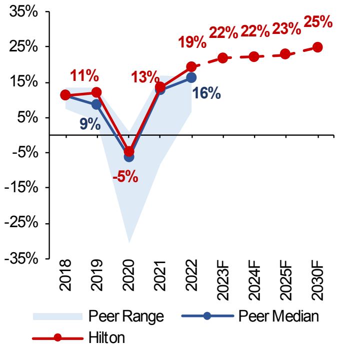
The current ratio of 53%, lower than the peers' median of 83%, is driven by Hilton's efficiency in

Figure 69 – Hilton and Peers Gross Margin (%)



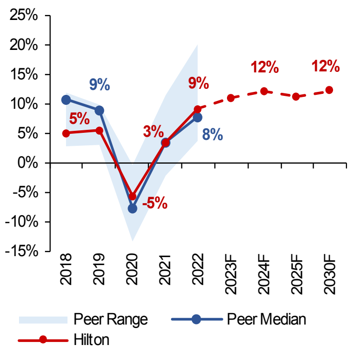
Source: Company Data and Author Projections

Figure 70 – Hilton and Peers Profit Margin (%)



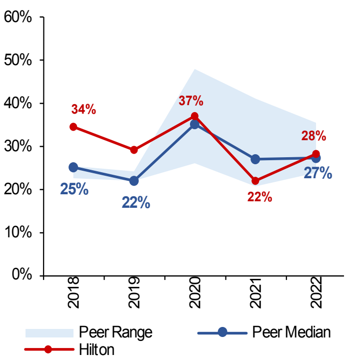
Source: Company Data and Author Projections

Figure 71 – Hilton and Peers ROA (%)



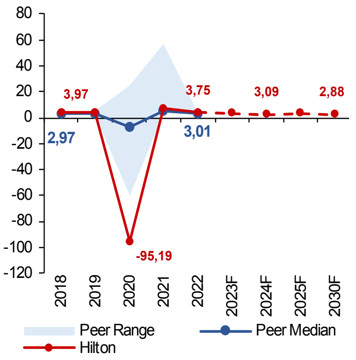
Source: Company Data and Author Projections

Figure 72 – Hilton and Peers Market D/E (%)



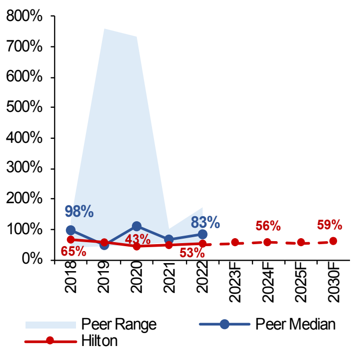
Source: Company Data and Author Projections

Figure 73 – Hilton and Peers Net-Debt to EBITDA (x)



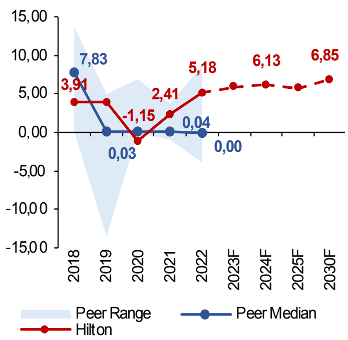
Source: Company Data and Author Projections

Figure 74 – Hilton and Peers Current Ratio (%)



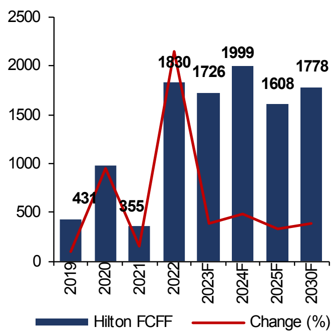
Source: Company Data and Author Projections

Figure 75 – Hilton and Peers Interest Coverage (x)



Source: Company Data and Author Projections

Figure 76 – Hilton FCFF ($'Mn)



Source: Company Data and Author Analysis

managing its working capital (Figure 74). Additionally, the **ability to cover interest payments has increased from 3.91x in 2018 to 5.18x in 2022**, exceeding the competitor's median (Figure 75). The expectation is to reach **6.85x in 2030**, emphasizing the **increasing ability of Hilton to cover its debt obligations** over the years. This rise is driven by the enhanced **operational efficiency and financial resilience resulting from the strategic shift to asset-light**, as evidenced by the higher interest coverage observed among franchisor peers (Appendix 6.3).

It is crucial to mention that the Debt-to-book Equity and Equity Multiplier analyses do not provide an accurate indication of solvency. This is attributed to the consistent decrease in equity value since the initiation of Hilton's share repurchase program in 2017, aimed at returning value to shareholders, which resulted in negative value of equity in 2019YE, primarily due to the repurchase of approximately 16.9Mn shares worth $1.5Bn.

Low dividend commitment

Hilton's dividend pay-out is currently **10%**, **lower than the peers' median of 14%**. The BoD's commitment to maintain a constant quarterly dividend per share anticipates a decline in the pay-out ratio to **5% in 2030F**, driven by increasing net income and Hilton's ongoing stock repurchase program (Figure 19). This dividend policy is **less attractive when compared to peers** and might not align with the preferences of investors looking for immediate high-income returns.

Cash Flow Generation

Hilton's cash flows exhibited **considerable volatility during the 2018-20 period**, reflecting the disruptive impact of the COVID-19 pandemic and the economic downturn. However, **CF significantly increased in 2022 to $1.8Bn**, indicating a resilient financial position and recovery. The expectation is for Hilton to sustain a more consistent generation of CF in the period 2023-30F (Figure 76).

Nevertheless, Hilton should continue to **focus on measures to sustain healthy cash flows** that adequately cover operational expenses, debt obligations, and potential future investments, to secure the **business sustainability and resilience**. With the **current operating CF ratio standing at 0.6x** and anticipated to grow to **0.7x in 2030F**, there exists room for improvement (Appendix 6.1).

GROUP REPORT

HILTON WORLDWIDE HOLDINGS INC — COMPANY REPORT

HOSPITALITY SECTOR — 20 DECEMBER 2023

STUDENTS: MARIA GOMES | MARTA DIAS 54521@novasbe.pt 54032@novasbe.pt

Hilton Worldwide - Equity Research

Paving the way for optimized growth through an asset-light strategy

- Hilton Worldwide has a SELL recommendation, with a 2024YE PT of 153.48/Sh., using a DCF model, representing an expected negative total return over a 12-month period of -17% against the closing price of $177.23/Sh as of 15-Dec-23.

- Hilton has been strategically shifted to an asset-light business model, focusing on the Management & Franchise segment, expected to account for 71% of total revenues by 2024F. By adopting this strategy Hilton has been able to increase profitability (net profits at 18% CAGR 2018-22); capital efficiency (ROIC at 11% CAGR); and, debt coverage (at 7% CAGR).

- In light of this strategy and industry's recovery, in 2022, Hilton experienced a remarkable surge in cash flow. Yet, there's further potential for growth, given its current operating cash flow ratio of 0.6x. Additionally, the Company's consistent dividend policy raises concerns about a decreasing pay-out ratio over time, impacting its overall appeal.

- Rooms sales are the major key driver for value creation within the Hospitality industry and Hilton is highly sensitive to variations in room sales, which may significantly impact the Company's valuation. Additionally, the ongoing developments of the Gaza war can negatively impact operations (with medium level risk).

Company description

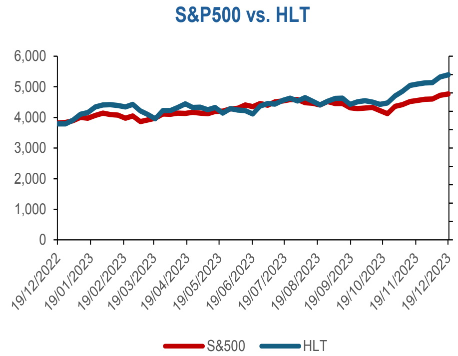
Hilton Worldwide is one of the world's largest hospitality companies. The Company operates through two reportable business segments: (i) Management and Franchise; and, (ii) Ownership. Geographically, Hilton operates in the US, Americas (excluding US), Europe, Middle East and Africa and Asia & Pacific.

Recommendation:	**SELL**
Price Target FY24:	**153.48 €**
Expected Gain/lLoss:	*-17%*
Price (as of 15-Dec-23)	**177.23 €**

Source: Author Analysis, Bloomberg: HLT

52-week range (€)	133.25-177.23
Market Cap ($'Bn)	33
Outstanding Shares (Mn)	256

Source: Company Data, Bloomberg: HLT



Source: Bloomberg

(Values in $ millions)	2022	2023E	2024F
Revenues	8773	9085	9929
Management	490	606	674
Franchise	2068	2424	2657
Ownership	1076	1312	3331
EBITDA	2556	2779	3080
EBITDA margin	26%	31%	31%
Net Income	1328	1607	1833
FCF	1830	1726	1999
EPS	4.6	6.1	7.2
DPS	0.5	0.6	0.6

Source: Company data and Authors analysis

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY MARIA GOMES AND MARTA DIAS, A MASTER IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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1. Business description

Hilton Worldwide (“Hilton” or “Company”) is **one of the world’s largest, fastest growing hospitality companies**, with a market capitalization of $33Bn and total assets amounting to $16Bn in 2022YE (Figure 1). The company engages in: (i) **managing hotels** for third-party owners; (ii) **licensing its intellectual property to franchised hotels** within its network; and, (iii) **directly owning a portfolio of hotels** across various locations.

Hilton, founded by Conrad Hilton in 1919, emerged as a pioneering force in the global hospitality industry. Beginning with a single hotel in Cisco, Texas, in 1946, Hilton rapidly expanded its footprint, becoming the first hotel company to be publicly listed on the New York Stock Exchange, under the name of Hilton Hotels Corporations. In **2007**, following a **merger with an affiliate of The Blackstone Group**, Hilton launched an international expansion strategy. Subsequently, in **2013, Hilton re-entered the public market**, solidifying its position as a leader in the global hospitality industry.

1.1. Geography and business segments

The company operates through **two reportable business segments**: (i) Management and Franchise; and, (ii) Ownership. The **Management and Franchise** segment represents **70% of FY2022 revenues**, amounting to $2.6Bn. This **segment's share of total revenues has been increasing**, and this upward trend is anticipated to persist, **due to a strategic transition toward an asset-light** business model, marked by a shift from owned properties to managed & franchise properties (Figure 2).

Geographically, Hilton operates in: (i) US; (ii) Americas (excluding US); (iii) Europe; (iv) Middle East and Africa (MEA); and, (v) Asia & Pacific (Appendix 1.1). Overall, the **US has the highest share of FY2022 revenue**, representing 54%, followed by Europe (26%). The share of revenues in the US increased as an outcome of the COVID-19 pandemic crisis (Figure 3).

Management & Franchise

The Management and Franchise segment offers two types of services: (i) franchise and licensing services; and, (ii) hotel management services (Appendix 1.2). The **Franchise and Licensing** involves licensing the company’s brands and intellectual property to third-party hotel owners, while **Hotel Management Services** manages day-to-day operations of third-party owned properties.

The **Franchise and Licensing** reports **revenues of $2.1Bn** and **Hotel Management Services** reports **$490Mn**, resulting in a **CAGR of 6% and -2%**, respectively, in the FY2018-22 period (Figures 4 and 5).

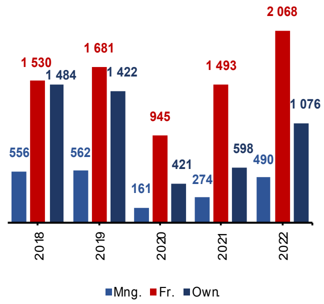
Franchise and Licensing

The **Franchise and Licensing fees** include: (i) **royalties**, calculated as a percentage of the franchised hotel’s monthly gross room revenue; (ii) **application and initiation fees** received upon the entry of new hotels or when contacts are extended; and, (iii) **licensing fees**, earned

Figure 1 – Hilton Worldwide Highlights

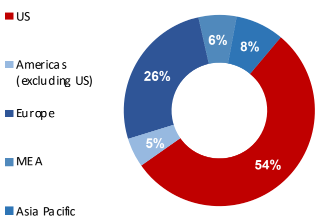
Source: FY2022 Company Data

Figure 2 – Management & Franchise Revenues ($'Mn)



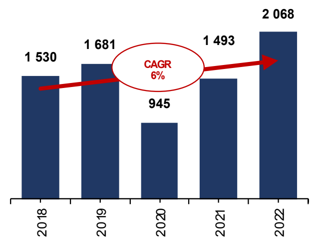
Source: FY2022 Company Data

Figure 3 – Revenue per country (%)



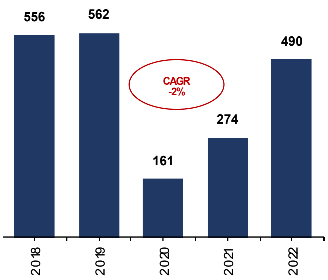
Source: FY2022 Company Data

Figure 4 – Franchise Revenues ($'Mn)



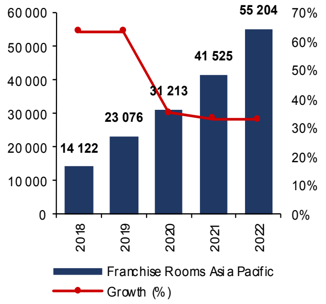
Source: FY2022 Company Data

Figure 5 – Management Revenues ($'Mn)



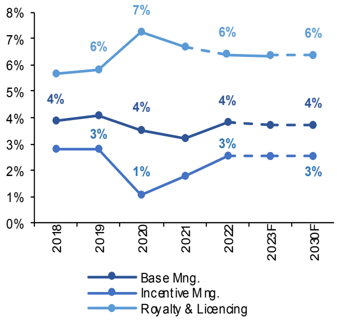
Source: FY2022 Company Data

Figure 6 – Franchise Rooms Asia & Pacific



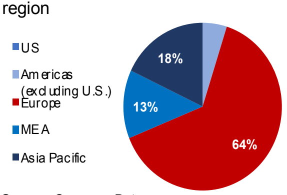
Source: Company Data

Figure 7 – Management & Franchise fees (% Rooms Sales)



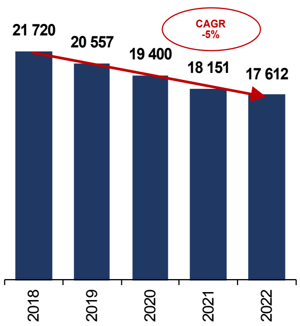
Source: Company Data and Author Analysis

Figure 8 – Share of owned rooms per region



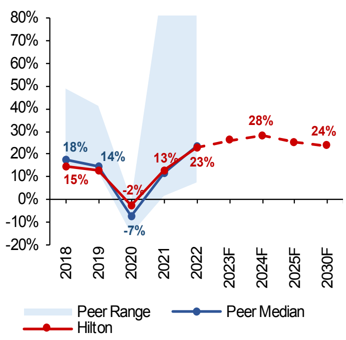
Source: Company Data

Figure 9 – Ownership Rooms



Source: Company Data

Figure 10 – Hilton and peers ROIC (%)



Source: Company Data and Author Analysis

from strategic partnerships for guest loyalty programs and license agreements with Hilton Grand Vacations to use the Company's intellectual property in its operations. During **FY2020-21**, the **fixed nature** of these latter two fees **led to an increase** in the overall percentage of the **Franchise and Licensing Fees** in relation to the hotel's annual gross revenues.

The **expansion** of this sub-segment can be **attributed to a rising number of franchised rooms in the Asia & Pacific region**, driven by a strong pipeline of franchise projects during the analysed period (Figure 6). The most significant project was the **partnership with Plateno Hotels Group**[1], leading to the rapid launch of the Hampton by Hilton brand in China, which became the fastest-growing singular brand in the region in 2019.

Hotel Management Services

The **decline in Hotel Management Services** was mainly driven by a decrease in the gross value of base and incentive management fees. This reduction resulted from a **decline in annual revenues of managed hotels**, which are **still in the process of recovery following the significant drop in 2020 and 2021** associated with the pandemic. Historically, **base management fees** accounted for **4% of managed hotels' room sales**, and **incentive management fees** represented **3%.** With no anticipated future disruptions, these percentages will remain constant in the 2024F-30F (Figure 7).

Ownership

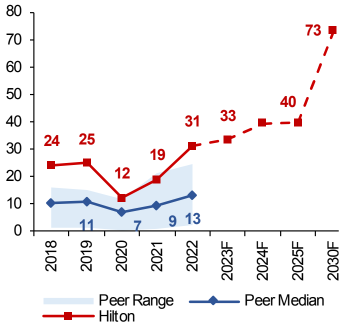
The Ownership segment **generates revenue from Hilton owned and leased hotels**, which include: (i) sales from nightly room bookings; (ii) sales from food and beverage services; and, (iii) sales from ancillary goods.

The segment reported an **80% increase in revenues** in **FY2022, totalling $1Bn**, due to a recovery in occupancy rates and increases in ADR. **Europe** is the **most relevant region**, **representing 64%** of the total revenues of the segment (Figure 8).

During the same period, Hilton reported a reduction of 539 owned rooms in relation to the previous year, consistent with the trend observed in the FY2018-22 period, with the total **number of owned rooms decreasing at -5% CAGR** (Figure 9). Overall, Hilton is **divesting in all geographies in this segment,** with a total divestment in the US market, in FY2019. The company's **strategy aims to mitigate risks** related to: (i) capital intensive nature of Ownership segment related to the acquisition, building and development; (ii) lower returns on capital in comparison to the Management & Franchise segments; and, (iii) risks associated with potential adverse economic conditions. With the progressive adoption of an asset-light model, during the years, Hilton has been able to increase its ROIC (Figure 10). However, the optimistic perception that Hilton won't be totally exposed to economic risks may be overstated, as both the Ownership and Management & Franchise segments are contingent on the hotel's operating performance. Consequently, Hilton will continue to have indirect exposure to some of the same risks.

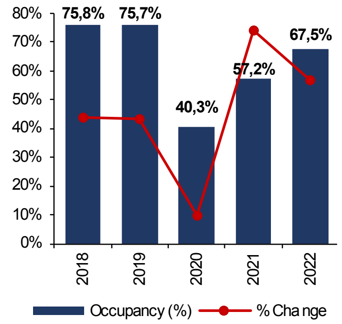
[1] In FY2020, the partnership celebrated its 6th anniversary. During that period, over 500 Hampton by Hilton hotels were signed and 150 opened across 100 cities.

Figure 11 – Hilton and Peers FAT (x)



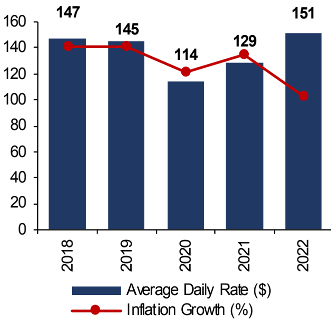
Source: Company Data and Author

Figure 12 – Hilton system-wide occupancy rates (%)



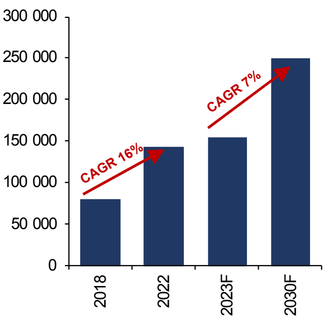
Source: Company Data

Figure 13 – ADR ($) Movements to Inflation growth



Source: Company Data and IMF

Figure 14 – Asia & Pacific Rooms



Source: Company Data

1.2. Key drivers of company profitability

Hilton's (i) **Revenue Growth**, (ii) **Cost Management**, and (iii) **Asset Efficiency** are impacted by the company's primary drivers of profitability, that include:

- **Room Sales:** Room sales are computed based on **occupancy rates**, **ADR** and **number of rooms**, and are the most important key driver factor of Hilton's profitability. A balanced relationship between occupancy and ADR is crucial to ensure Hilton not only maximizes room bookings (high occupancy) but also charges competitive and profitable rates for their rooms (high ADR). In **FY2022, occupancy metric is still below pre-pandemic levels** (Figure 12), while **ADR surpasses FY2018**, mainly due to inflationary pressures (Figure 13).

- **Asset efficiency:** Effectively managing the asset portfolio is **crucial for creating value**. This includes optimizing hotel types and locations based on their respective value and growth potential, as well as divesting from properties/ regions that do not align with Hilton's strategic objectives. The **strategic portfolio management** ensures the maximization of revenues, particularly in the **increase of incentive management** and **licensing fees.** Hilton stands out for its ability to leverage fixed assets for sales generation, being positioned as a primary example of asset management efficiency in comparison to its closest peers, i.e., peers progressively adopting an asset-light strategy and (Figure 11) franchisors peers (Appendix 6.2).

1.3. Company strategies

Hilton fundamental business strategies establish the foundation for the company to fulfil its obligations and generate value for shareholders.

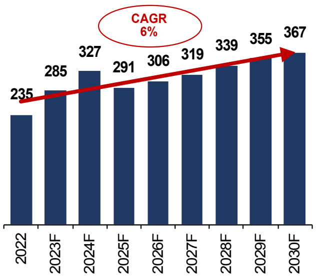
MEA and Asia & Pacific expansion

During the FY2018-22 period, **Hilton's** focus and **investments** were **towards** the **rapid growth in the Asia & Pacific market**. In this region, the Company has been able to **capture market share from its primary competitors**, (i) Marriott International; and, (ii) Wyndham Hotels and Resorts, which had experienced decreases in their market shares by 2p.p. and 6p.p., respectively (Appendix 3.3). Hilton's substantial investments have been **strategically directed towards China**, driven by its resilient economy and expanding middle-class population, but looking ahead, the operational expansion is expected to extend across a broader range of regions. Nevertheless, the anticipated **ongoing investment in Asia throughout FY2023-30F is expected to decelerate** as Hilton **shifts its focus from Asia & Pacific to MEA** (Figures 14).

The MEA region is playing a fundamental role in expanding the Management & Franchise segment. Substantial investments in hospitality and residential projects have been made across the region, with the main goal of attracting 160 million annual tourists by 2030[2]. MEA's business travel segment is recovering at a faster pace than all other regions, and Hilton recently announced plans to expand its presence in the region by over 140% in the next 5 years. The primary focus

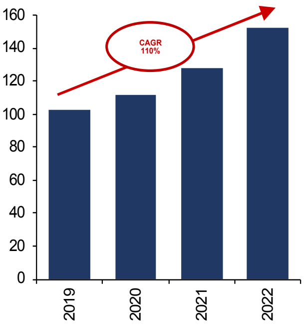
[2] See Middle East's $1.9 trillion hospitality sector led by KSA, UAE, and Egypt, by Yahoo Finance, 2023

Figure 15 – MEA Management & Franchise Rooms



Source: Author projections

Figure 16 – Total Members of Hilton Honors



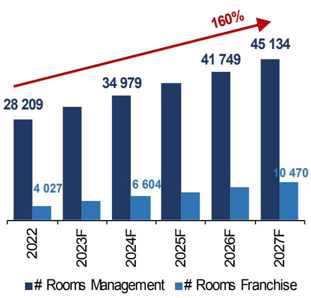
Source: Company Data

Table 1 – Guest Loyalty Programs

Company	Program	# Members (Mn)
HLT	Hilton Honors	152
CHH	Choice Previliges	50
H	World of Hyatt	36
IHG	One Rewards	>100
MAR	Bonvoy	177
WH	Wyndham	99

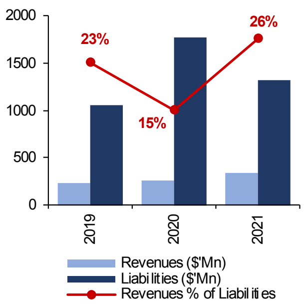
Source: Company Data

Figure 17 – Forecast Management & Franchise Rooms



Source: Author Projections

Figure 18 – Hilton Honors Revenues and Liabilities ($'Mn)



Source: Company Data

will be in Saudi Arabia, where Hilton aims to quadruple its presence, positioning the country as the company's most substantial pipeline market. As a result**, revenues from management and franchise rooms in MEA are expected to increase at 6% CAGR in FY22-30F** (Figure 15) and the **number of rooms are expected to increase 160% by 2027F** (Figure 17).

Organic brand growth in US

Hilton had **pursued an organic growth strategy** for expansion, **distinct from the industry norm where many rely on M&A** for scale and growth. In the past 15 years, Hilton has doubled expansion of its brand portfolio and global room count through organic growth resulting in a substantial increase in the Company’s customer base and a wider range of chain scale offerings (Appendix 1.3). This resulted in a shift towards the franchised segment, particularly in the US, with a CAGR FY18-22 of 5% in the number of franchised rooms. The increase was driven by the intensive introduction of new brands that required third-party owners to establish the new hotels under franchised contracts. In **January 2023**, Hilton announced the **launch of its newest brand Spark by Hilton**, positioned within the premium economy segment to meet the diverse needs of both guests and owners who prioritize value, quality, and consistent accommodation offerings.

Focus on business travel

The landscape of business travel has undergone significant transformation and redefinition in recent years. Hilton experienced a shift in transient clients, with **owners or employees of SMBs representing 85% of Hilton’s business travellers**. In **2023,** Hilton launched a **targeted set of offerings tailored to SMBs** (Appendix 1.4) and it is currently actively working to expand and enhance these offerings throughout 2024.

Additionally, with an increase in individuals undertaking extended work assignments, Hilton introduced an apartment-style brand, temporarily referred to as Project H3 by Hilton. This new offering caters to the needs of both "bleisure" travellers and those on long-term projects, addressing a notable gap in the market for accommodations tailored to stays of 20 nights or more.

Guest Loyalty Programs

Guest loyalty programs, particularly **Hilton Honors**, affect Hilton’s **potential profit**. Advantages tied to Hilton’s guest loyalty program include: (i) **customer retention**; (ii) **direct bookings**; and (iii) **long-term relationships**. Upon enrolling in Hilton Honors, guests demonstrate a preference towards selecting Hilton properties, resulting in a **doubling number of nights booked compared to non-members**. Moreover, the program’s extensive array of benefits and privileges **increases member’s engagement**, leading to increased occupancy and heightened customer satisfaction.

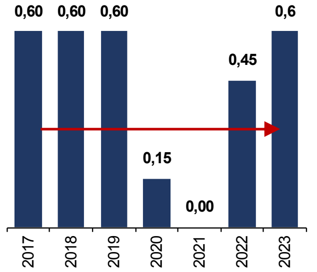
In **FY2022**, Hilton had **152Mn members** in the award-winning guest loyalty program (Table 1) representing a **19% increase** in relation to FY2021 (Figure 16). However, over the FY2018-22 period, the **generated revenues were insufficient to outweigh the associated liabilities**, which include administrative expenses and marketing initiatives (Figure 18). For that reason, there isn’t sufficient evidence indicating that in the future the Hilton Honours will yield long-term profitability.

Table 2 – Hilton Top 5 Shareholders

TOP 5 Shareholders		
#	**Shareholders**	**Out. (%)**
1	Vanguard Group	9,8%
2	Blackrock	7,6%
3	Capital Group Companies	7,4%
4	T Rowe Price Group	5,4%
5	FMR LLC	4,2%
Total		34,4%

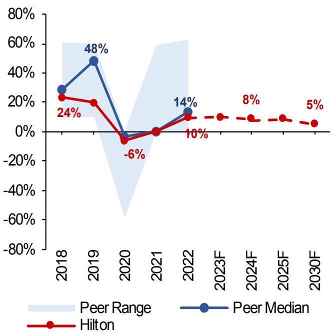
Source: Company Data

Figure 19 – Hilton DPS ($)



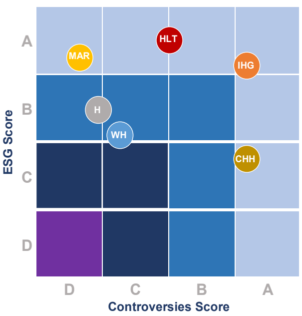
Source: Company Data

Figure 20 – Hilton and peers pay-out ratio (%)



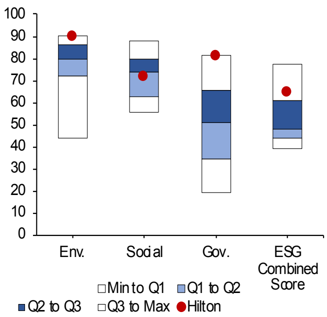
Source: Company Data & Author Projections

Figure 21 – Refinitiv ESG Score Matrix



Source: Refinitiv and Author Analysis

Figure 22 – Hilton ESG Scores



Source: Refinitiv and Author Analysis

1.4. Ownership structure

Hilton has 266 million shares outstanding, with inside ownership of 2% and free float of 98%. The company has among 58% of institutional investors and circa 42% of high retail investors, 86% are North America owners (Appendix 1.5). The top shareholders are the Vanguard Group (9.8%), followed by BlackRock (7.6%) (Table 2).

Dividend Policy

Before the pandemic, Hilton maintained a **consistent yearly dividend per share** (DPS) of **$0.60**, although adjustments in FY2020-22 were made as result of declining results. Hilton's DPS are expected to **return to previous levels in 2023** and are **intended to remain constant**, as indicated by the Board of Directors (Figure 19). However, in the event of a similar downturn, it is anticipated that the Company would reduce DPS to mitigate decreasing operational expenses, CAPEX, and higher levels of debt, thereby preserving the Company's liquidity position.

In terms of pay-out ratio, Hilton's **EPS increased at 13% CAGR in the FY2018-22 period**, which resulted in a **decrease of the pay-out ratio** from 24% to 10% (Figure 20). The trend of decreasing the pay-out ratio is **anticipated to continue in the coming years**, driven by a rise in net income and Hilton's stock repurchase program, which included the repurchase of 4.5Mn shares during the third quarter of 2023.

2. Environmental, Social and Governance (ESG)

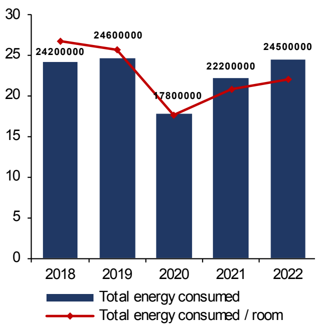
According to Refinitiv, Hilton has an ESG overall score of A-, and Controversies score of C+, which results in an **ESG combined score of B**[3] (Figure 21 and Figure 22). Hilton holds a favourable position compared to its direct peers, but its overall ranking is mainly influenced by a lower rank in the controversies pillar score.

2.1. Environment

Hilton demonstrates **strong Environmental scores**, both in **absolute terms and relative to its peers** (Appendix 2.1). Hilton's Environment policy targets a review in emissions goals every 5-years, in line with the Science Based Target Initiatives (SBTi) requirement. The Company has both in **Emissions and Resource Use an A score**. So far, Hilton has largely reduced their carbon footprint and energy consumption by **-44%** and **-35.7% in 2022** (from 2008 baseline), through various investments in renewable energy, including the: (i) installation of solar panels in Waldorf Astoria Resort; (ii) placement of EV charger stations in various hotels; and, (iii) the transition to LED lighting bulbs. These results contributed to consistent reductions in total energy consumed per room, with a **-4.8% CAGR in the 2018-22 period** (Figure 23), and in CO_2 emissions by a **-0.3% CAGR over the same period** (Figure 25). The lower CAGR in CO_2 emissions is the result of the increase in consumption in 2021 and 2022 as the business recovered from the impact of the global pandemic. Additionally, **in 2018-22, waste generation**

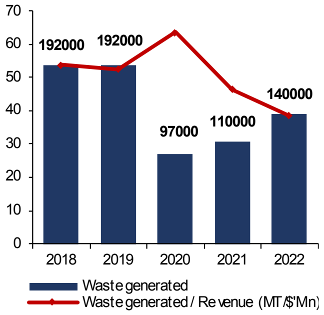
[3] The Refinitiv ESG methodology scores ranges from D to A, being D the worse score and A the best Score. The ESG Combined Score is derived by combining the weighted average of the ESG Overall Score with the ESG Controversies Score. The ESG Overall Score combines the weighted average of three pillars: Environment, Social and Governance.

Figure 23 – Hilton Energy Consumed (in gigajoules)



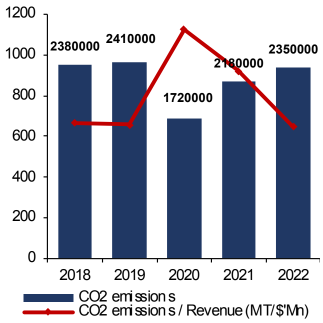
Source: Company Data

Figure 24 – Hilton Waste generation (MT)



Source: Company Data

Figure 25 – Hilton CO2 Emissions (MT)



Source: Company Data

Table 3 – Hilton Board of Directors

Hilton's BoD	
Name	**Start Year**
Board of Advisors	
Chrlistopher J. Nasseta	2007
Jonanthan D. Gray	2007
Douglas M. Steenland	2009
Charlene T. Begley	2017
Chris Carr	2020
Melanie L. Healey	2017
Raymond E. Mabus Jr.	2017
Judith A. McHale	2013
Elizabeth A. Smith	2013

Source: Company Data

has declined at a -7.6% CAGR (Figure 24), especially attributed to Digital Key share feature.

In total, Hilton has saved **$1.38 Bn since 2009** in watts, water and waste costs.

2.2. Social

While Hilton's Social Pillar B+ score is **positive in absolute terms**, it **is slightly below peer's score**. **Improvement opportunities** were identified, particularly in the **product responsibility** (Appendix 2.1) including deficiencies concerning (i) assessment of supplier ESG risk and performance; and, (ii) data security (breaches). Additionally, controversies related to: (i) business ethics; (ii) discrimination; (iii) trafficking; and, (iv) harassment were raised.

Nonetheless, **substantial progress** was identified in other areas, including **Workforce and Community**, with consistent **development** of learning and **career growth opportunities**, **increasing women and minorities** not only in the workforce but in leadership levels, and **consistent donations to the communities**. Hilton is ranked the #2 Best US Company to Work for and the #1 in 29 countries, US Best Place to Work for Disability Inclusion, and first and only hospitality company for ESG on the Supplier Diversity list.

2.3. Management and Corporate Governance

Hilton outperforms its peers with the highest **Governance Score**, particularly in areas related to Management and Shareholders (Appendix 2.1). Hilton follows a **CEO-Chairman Structure**, where Mr. Christopher J. Nassetta serves as CEO and the Chairman position is held by Mr. Gray, a commonly observed practice within the hospitality sector.

The Board of Directors (BoD)

The **CEO is the only executive member**, and the lead independent director serves as a link between the CEO and independent and non-management directors, with **78% of directors being independent**. The board is supported by fully independent committees: (i) Audit Committee; (ii) Compensation Committee; and, (iii) Nominating & ESG Committee. **Annually**, the **BoD is subject to elections** at the annual meeting of stockholders.

As referred to, the BoD considers **separation of the roles of the Chair and CEO** as the most appropriate leadership structure, however there is **no policy on whether the roles should be separated or combined**. Additionally, the **extended length of the mandates** of the Chairman position (Table 3) and the **number of external public company roles** held by members of the entire board can be seen as a **governance red flag** (Appendix 2.2).

Nevertheless, there is **no evidence indicating potential conflicts of interests** concerning the private interests of the BoD members. The board members exhibit a diverse **mix of backgrounds**, **knowledge**, **skills** and **expertise**.

The Management

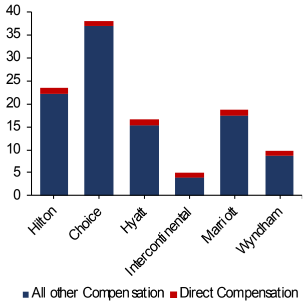
Mr. Christopher J. Nassetta is the President and CEO since 2007. The remaining officers at Hilton demonstrate a **wealth of experience in both the industry and the Company**, with **tenures reaching 17 years**. Hilton's Named Executive Officers ("NEO") include: (i) Kristin A. Campbell;

Table 4 – Hilton Officers

Hilton's Officers	
Name	Function
Corporate Officers	
Chrlistopher J. Nassetta	CEO, President
Laura Fuentes	Executive VP, CHRO
Kristin A. Campbell	Executive VP, General Councel & Secretary
Kevin J. Jacobs	CFO & President,
Matthew W. Schuyler	CBO
Christopher W. Silcock	Executive VP, CCO

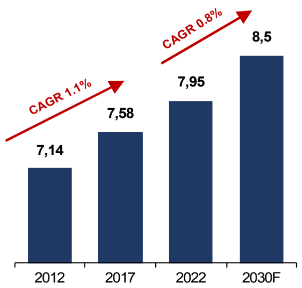
Source: Company Data

Figure 26 – CEO Compensation ($'Mn)



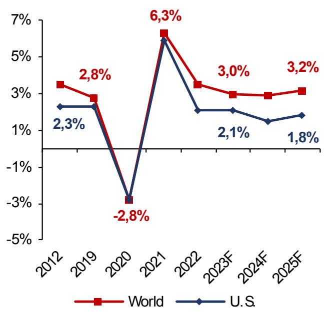
Source: Company Data

Figure 27 – World Population (Bn)



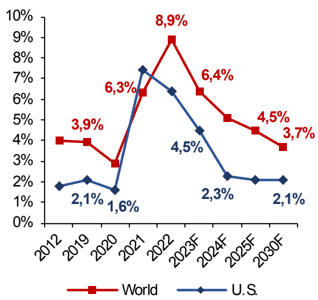
Source: United Nations; World Bank

Figure 28 – Real GDP Growth Forecast Word vs US



Source: IMF

Figure 29 – Inflation World vs US



Source: IMF

(ii) Laura Fuentes; (iii) Kevin J. Jacobs; (iv) Matthew W. Schuyler; and, (v) Christopher W. Silcock (Table 4).

The Management Compensation

Hilton's management compensation program applies to the NEOs, and it is a combination of cash and equity composed by: (i) Base Salary; (ii) Annual Cash Incentives; (iii) Long-term incentive ("LTI"); and, (iv) other benefits and perquisites.

In 2022, Hilton's total reported CEO compensation amounted to $23.5Mn, from which $1.3Mn were direct compensation and $18.3Mn (78%) corresponded to LTI in form of stock options and options awards. **Direct compensation aligns with industry's average pay standards** (Figure 26).

ESG impacts on valuation

Given Hilton's good ESG performance compared to peers, a specific recommendation for ESG conscious investors was created, applying **adjustments to the cost of equity in the primary FCFF model**, using a proxy of Damodaran's **Virtuous Cycle Scenario** (Appendix 7.7).

3. Industry overview and competitive positioning

3.1. World economic outlook

World Population

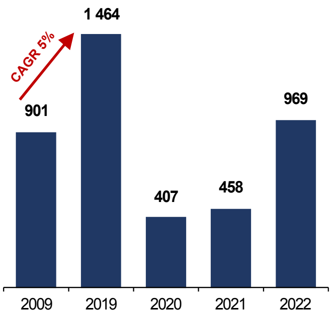
The **global population increased from 7.14 to 7.95Bn in the 2012-22 period**, growing at a **1.1% CARG** over the last decade. The world population is projected to reach **8.5Bn in 2030F**, with an **expected 0.8% CARG** (Figure 27).

GDP growth and Inflation

In the period 2012-19 global real GDP remained relatively stable, with growth rates ranging between 2.8% and 3.8% (Figures 28). However, the **COVID-19 had a significant impact on the world economy**, leading to a sharp decrease in real GDP to -2.8% YoY, with emphasis on European countries (-5.5% YoY). Vaccination rates, government support, digital transformation acceleration and the reopening of contact-intensive activities contributed to a **recovery in 2021** (6.3% YoY). In 2022, the war in Ukraine, alongside additional factors such as the emergence of new COVID-19 variants and reintroduction of mobility restrictions, caused a **substantial deceleration in global growth and exacerbated inflationary pressures**, with **Europe being one of the most affected regions.** A **decline in GDP growth rate is expected in the years 2023-24F**, with increasing interest rates and the wars in Ukraine and Israel continue to pose challenges to economic activity. Nevertheless, China's recent reopening in 2023 is expected to partially mitigate the anticipated decline in real GDP growth.

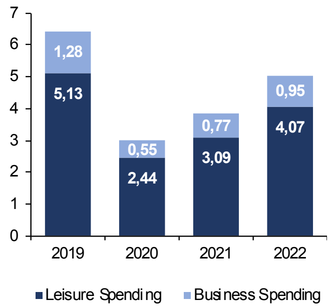
High commodity prices, as a result of war, and expanding price pressures contributed to inflation of 8.9% YoY in 2022YE (Figure 29). However, the **inflation rate is expected to slow down in the period of 2023-30F**, considering gradual monetary policy adjustments, normalization of

Figure 30 – International Tourism Arrivals (Mn)



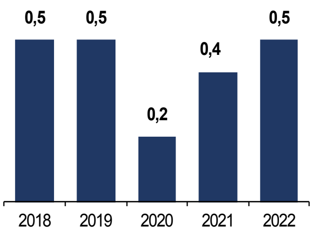
Source: Worldwatch Institute

Figure 31 – Travel and Tourism Spending ($'Tn)



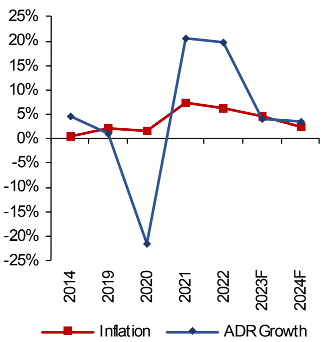
Source: World Travel & Tourism Council

Figure 32 – New Rooms Supply (Mn)



Source: STR

Figure 33 – US Inflation vs ADR growth



Source: IMF & PwC – "Hospitality Directions US"

global supply chains and enhanced global economic resilience.

World Hotel Demand

Travel and tourism GDP is predicted to grow, on average, **at 5.8% YoY between FY2022-32F**, **surpassing the growth of the overall economy** at an expected 2.7% YoY (Appendix 3.1).

The **international tourist arrivals experienced substantial growth between 2009-19FY**, representing a **CAGR of 5%** (Figure 30). However, the **global travel and tourism sector experienced a significant setback in 2020** because of the impact of the coronavirus pandemic and lockdown measures. This led to a notable **decline in** both **global international tourism arrivals** (**-72.2% YoY**) and a corresponding **-53.4% YoY decrease in global travel and tourism spending** (Figure 31). The global travel and tourism sector **started its recovery in 2021**, however, the **pace was slower than anticipated**. This was attributed, in part to, to challenges posed by the Omicron variant, stringent and inconsistent border restrictions, and a lack of coordinated efforts among governments to address the ongoing pandemic. Despite the challenges the sector has been facing, the **outlook is positive**. **In 2022**, the travel and hospitality industry experienced a **steady rebound in performance**. **Recovery and growth on world hotel demand is expected to continue and to reach 80% to 95% of pre-pandemic levels in 2023F** depending on the extent of the economic slowdown[4].

World Hotel Supply

Supply in the hotel industry is represented by the number of hotels/ rooms worldwide. **Changing market conditions**, with **rising construction costs**, **increasing financing costs**, and **fewer financing options** caused by recent turmoil in the banking industry, have posed challenges to the supply growth of new hotel rooms. Additionally, **market uncertainty**, along with the **ongoing recovery from the COVID-19 pandemic**, contributed to a **decrease in the growth of new hotel supply** (Figure 32). **New supply growth** is expected to **rise above the 2022 level increase**, but it is **expected to be considerably slower than the amount of new supply growth experienced before the COVID-19 pandemic** during the 2023-25F period[5].

Hotel Prices

Hotel industry prices are **subject to significant levels of volatility**, which tend to reflect the interplay between industry demand, supply, and the macroeconomic environment.

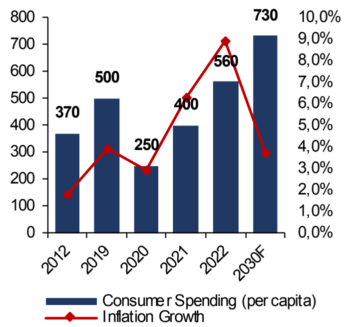
In 2020, due to the coronavirus pandemic and lockdown measures imposed by governments, the **average world hotel prices decreased sharply**. With the ease of restrictions and higher demand, alongside inflationary pressures, **in 2021**, **hotel prices rose without returning to pre-pandemic levels**. **Hotel prices exceed pre-pandemic levels in 2022 and are expected to continue to rise by 2024, accounting for inflation and high interest rates** (Figure 33).

[4] According to CBRE
[5] According to The February 2023 edition of CBRE's Hotel Horizons® projections

Macroeconomic snapshot for valuation purposes

US

Figure 34 – US Inflation vs Consumer Spending per capita

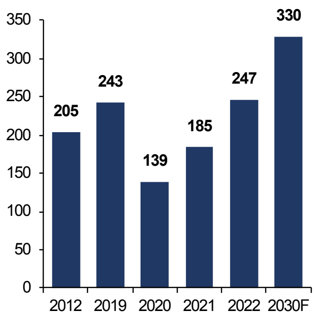


Source: IMF

During the **FY2012-19 period**, the **US economy demonstrated stability**, marked by an **average GDP growth of 2.3% YoY** (Figure 28). However, the COVID-19 pandemic significantly disrupted this trend, resulting in a **-2.8% decrease in Real GDP in 2020**. In 2021, as economic activities reopened, the country experienced a robust recovery, but this was accompanied by high inflation rates, surpassing the average global inflation (Figure 29). **By 2022, the pace of economic growth decelerated**, and this trend is **expected to persist in the 2023-30F period**. Also, **expectations include a reduction in inflation rates**, tied to weakening services activity and a manufacturing slowdown, contributing to softened labour markets and an overall economic slowdown. A **decline in inflation is projected to boost consumer spending on accommodation**, **reflected in 3% CAGR FY2022-30F** (Figure 34).

Europe

Figure 35 – Europe Consumer Spending (per capita)

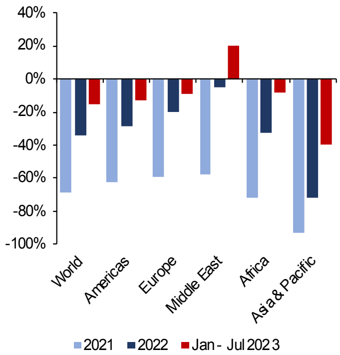


Source: IMF; World Bank; UN; Eurostat

In 2022, Europe annual inflation reached 9.2%, the **highest level ever measured**, primarily attributed to supply shocks related to the COVID-19 pandemic and Russia's conflict in Ukraine. However, inflation is expected to gradually decrease and then stabilize in the forecasted years, as a result of cost pressures and monetary policy measures implemented by the European Central Bank (ECB). With the expected stabilization of inflation growth, a projected recovery in household income and private consumption, alongside strengthened foreign demand, **Real GDP growth is also projected to stabilize, above the world average Real GDP growth** (Appendix 3.1). **Consumer spending on accommodation is expected to grow at 3.7% CAGR FY2022-30F** (Figure 35).

MEA

Figure 36 – Change of Tourist Arrivals 2019



Source: UNWTO

In 2023F, it is anticipated a **decline in pace of Middle East Real GDP growth to 1.6%**, marking a significant slowdown compared to the 6.5% recorded in 2022YE (Appendix 3.1). This shift is attributed to the **reduced oil production among exporting countries** and the **implementation of stricter policy measures within emerging markets and middle-income economies across the region**. Nevertheless, the Middle East is **projected to be the region with the highest growth of +10% CARG 2023-30F**. It is important to note that the **development of the Gaza Conflict could** introduce uncertainties that may impact and potentially **decelerate this growth trajectory**.

Regarding tourism activity, the **Middle East's tourism sector has experienced the most substantial post-pandemic rebound globally** (Figure 36) achieving complete recovery in tourist arrivals in the Q1 2023, especially due to the FIFA World Cup. Tourism sector is **projected to grow above other regions** due to heavy government investments, infrastructure development and the digital transformation. However, **the emerging war in Israel could also weight on the hotel demand**, not only in the country but also in the broader MEA region, **impacting occupancy rates**.

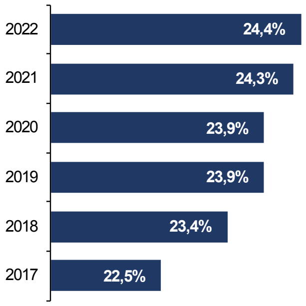
Asia & Pacific

Overall economy of the Asia & Pacific region is **projected to grow at an average rate of 4.1% in 2023-30F**, **above the world average Real GDP** (Appendix 3.1). Enhanced consumption and increased investment are boosting recovery in many regional economies, mitigating the impacts of inflation.

Contrary to the trajectory in the Middle East, Asia & Pacific region is experiencing a **slower tourism recovery in 2023** (Figure 36). Although tourism activity is trending upward, this delay is mainly **attributed to the gradual reopening and economic recovery in China**, which served as the world's largest source of international tourism before the pandemic.

3.2 Hospitality industry overview

Figure 37 – Combined Market Share of TOP 5 Branded Hotels



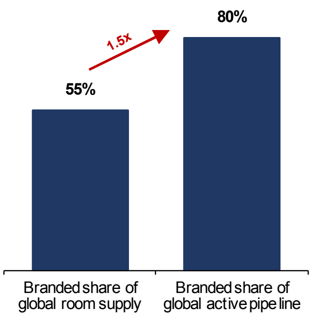
Source: STR

Industry Structure

The hotel industry is **fragmented** (Figure 37), composed by **diverse property types catering to various market segments and consumer preferences**, with the presence of independently operated properties not affiliated with major hotel chains or franchises.

The **total branded hotels represent a significant portion of the global room supply** with share expected to further expand to 80% considering active pipeline (Figure 38). Branded hotel penetration has consistently risen as a long-term trend, and this upward trajectory is anticipated to persist as consumers seek trusted brands to align with their evolving expectations. The **top five hotel groups**, including Hilton, **have increased their market share from 22.5% in 2017 to 24.4% in 2022**, as percentage of global rooms supply, contributing to **heightened barriers to entry** within the market (Figure 37). **Competition remains fierce in the branded segment**, with major players actively pursuing growth through a mix of organic expansion, partnerships, and acquisitions.

Figure 38 – Branded Hotels Share

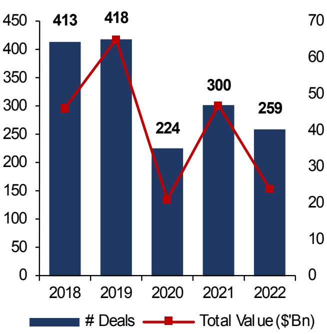


Source: STR

Mergers and Acquisitions in the Industry

Mergers and acquisitions are one of the most used hotel companies' growth strategies, which enable (i) **efficiency in capital allocations**; (ii) **enhancement of portfolio**; and, (iii) **organizational effectiveness**, that builds **competitive advantage** in the market and creates value to the shareholders.

Figure 39 – M&A Activity in the Hospitality Industry



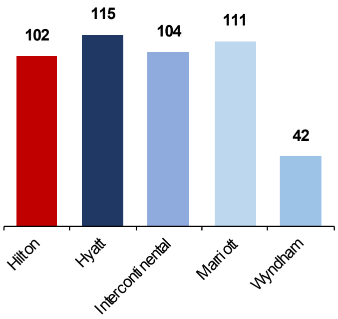
Source: Bloomberg

Throughout the years, the **number of M&A deals and value had been relatively steady** (Figure 39). However, the pandemic disrupted the trend, compelling investors to retain their liquidity positions and consequently suspend their investment activities, which resulted in a significant decline in M&A deals. In 2021, there was an increase in M&A deals, driven by the imperative for smaller, independent hotels to align with more established brands as a strategic response to overcome the repercussions of lockdowns.

In 2022, the hospitality sector experienced a **shift in deal dynamics**, with a focus on asset purchases and smaller-scale deals, due to higher interest rates, soft business travel, labour shortages, high economic uncertainty and discrepancies in asset valuations. Although the number of deals only slightly decreased by 14%, this shift resulted in a **substantial decline in**

the total deal value by **-50%**. Looking forward the sector is anticipated to adjust to the reality of higher interest rates, with an **increase in deal activity**. The third quarter of 2023 has already experienced an increase in the number of deals by 19% compared to the previous quarter.

Figure 40 – RevPAR ($) 2022



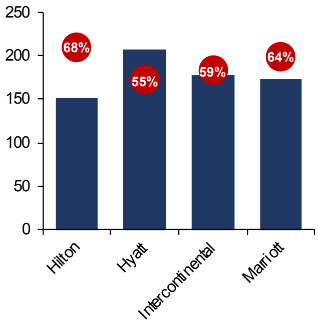
Source: Company Data

Industry Key Drivers of Profitability

As mentioned in section Company Key Drivers of profitability, industry key drivers of profitability are (i) **Room sales**; and, (ii) **Asset efficiency**.

Regarding room sales, **Hilton falls short compared to its peers**, considering t**he average RevPAR** of hotels in 2022. While maintaining the highest occupancy rate, Hilton's RevPAR is notably lower **due to its ADR**, which is **comparatively lower than that of its peers** (Figure 40 and Figure 41). Nevertheless, **Hilton has an advantage** over its peers in terms of **asset efficiency**, as described previously (Figure 11).

Figure 41 – ADR ($) and Occupancy Rates (%)



Source: Company Data

Industry challenges and opportunities

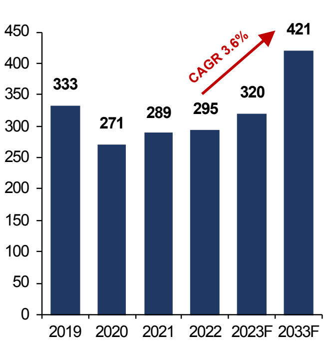
The COVID-19 pandemic resulted in a combination of a **supply shocks, an unprecedented decline in demand and a worldwide humanitarian emergency**. The coronavirus pandemic shaped the travel and tourism industry which has entered in an era defined by **digital solutions and technological advancements**, **powerful competition**, **labour shortage** and **growing emphasis on sustainability**.

Sustainability

With growing public and government pressure and the number of guests looking for guarantees that they are in places that respect the environment, the **imperative around sustainability will only increase**. Hospitality companies will have to **demonstrate their dedication to sustainable practices** and **transparency in their environmental initiatives, responsible resource management,** and **eco-friendly operational strategies will be crucial**.

Labour Shortages

Figure 42 – Number of Jobs in T&T Sector



Source: World Travel & Tourism Council

The travel and tourism industry faced adverse effects in 2020 due to travel restrictions, mandatory COVID-19 tests, and quarantine mandates. **As tourism activities declined**, **hotel companies experienced a sudden drop in revenues**, leading them to **reduce their workforce to sustain operations**. Despite demonstrating resilience in the most recent years, the hospitality industry continues to face a **prolonged and widespread labour shortage,** a key challenge for the industry, which constrains the industry's growth and recovery from COVID-19 (Figure 42).

The existing shortage of labour can be attributed to a combination of factors, including **the movement of workers to other sectors**, because of the **number of layoffs during the pandemic** and in result to the **specific characteristics of jobs within the hotel industry**. Seasonal fluctuations and inadequate regulation contribute to the informal nature of tourism jobs, leading to challenging work conditions such as long hours, low compensation, high turnover rates and limited social security. Additionally, irregular shifts, night schedules, and temporary positions are common within the industry. Other factors such as **travel restrictions causing a decline in the number of migrant workers**, equivalent to approximately 20% of the hospitality sector's

Table 5 – Shortfall as % of Labour Demand

	Labour Demand (K)	Gross Shortfall (K)	%
EU	11,236	-1,192	11%
USA	6,274	-412	7%
UK	1,792	-128	7%

Source: World Travel & Tourism Council

workforce in the US before the pandemic[6], coupled with the **slow rehiring of displaced workers**, have created a **significant imbalance between the demand for and the supply of labour in the industry** (Table 5).

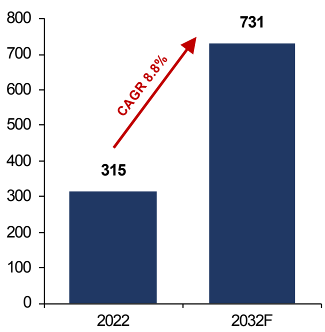
To prevent persistent shortages, it is crucial for businesses in the hospitality sector to **adopt and maintain policies supporting labour mobility**, **flexible and remote work**, **ensuring decent work conditions** and **safety** and fostering **employee learning and development**. Also, **the growing adoption of digital solutions and automation presents a potential opportunity** to bridge the labour gap and address these persistent challenges.

However, **the adoption of these measures may impact the hospitality industry sector**. Implementing policies to enhance labour mobility, facilitate remote work, and ensure decent work conditions might lead to **increased personnel costs**. **Staff wages have been increasing since 2020**, showcasing significant growth across various markets, with the UK as a notable example recording a 53% increase in weekly salary between 2012 and 2022. Consequently, **profit margins may decelerate**, as costs, driven by inflation and labour expenses, grow at a higher pace than ADR. Also, investments in **CapEx are expected to increase**, due to the increased adoption of new technologies and automation processes to enhance operational efficiency.

Trends

Bleisure Travel

Figure 43 – Bleisure Market Size ($'Bn)



Source: Allied Market Research

The **convergence of remote work** as a mainstream phenomenon and the **rise of digital nomads** has significantly impacted the hospitality industry, leading to the **emergence of the "bleisure" travel**. As more individuals work remotely, the opportunity to combine business with leisure travel has become increasingly appealing, with an expected bleisure market growth at **8.8% CAGR 2022-32F** (Figure 43).

Due to the flexibility offered by remote work arrangements, there has been a **shift in the length of stay**, with around 55% of business travellers intending to extend their trips post-pandemic to improve work-life balance[7]. Additionally, the trend is expected to lead to a **rise in interest for secondary markets and resort destinations**, especially all-inclusive properties.

The sector's ability to recognize and cater to the evolving demands of digital nomads and bleisure travellers is crucial for capturing **additional room nights and ancillary revenue**, presenting a **lucrative opportunity for the hospitality industry to redefine the guest experience**. For instance, **hotels are adapting** to cater to the unique needs of bleisure travellers by providing amenities that support both work and relaxation, including workspaces, and expanding their range of offerings, such as embracing extended-stay concepts.

Technology and Innovation

Future hotels are embracing **technological integration to streamline services and improve guest convenience**, including the adoption of mobile apps for frictionless check-ins, room

[6] According to The World Travel & Tourism Council, prior to the pandemic, foreign-born workers constituted 16% of the tourism workforce in the UK and the EU and nearly 20% in the USA
[7] According to a trend listed by Forbes in 2022

assignments through smartphones, and the elimination of traditional front desk processes. The trend extends to the **automation of in-room features**, with adaptable furniture that transforms for various uses, from daytime meetings to night-time social events, as well as the **integration of technologies like virtual reality**.

These advancements respond to changing traveller preferences, offering a more efficient, enjoyable and personalized hotel experience. Today's travellers seek more personalised, seamless interactions with hospitality providers, with 80% emphasizing the significance of being able to book their entire trip online[8]. This quest for personalization extends to the selection of accommodations, with guests showing a growing preference for rooms that cater to their unique preferences and needs.

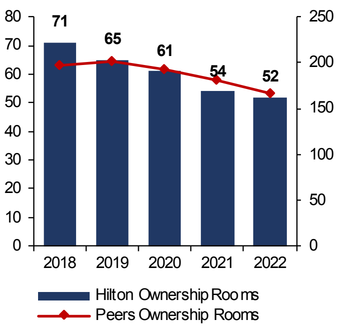
ESG as a priority

Anticipating a growing emphasis on sustainability, the hotel industry is undergoing a paradigm shift where **environmental considerations become a top priority**. This trend highlights the **increasing demand from both business and leisure guests for assurances that their accommodations align with eco-friendly practices**. Consumers are increasingly willing to switch from brands that do not align with their values and are ready to pay a premium for those that do[9]. For instance, 87% of global travellers express a preference for sustainable travel, with 68% actively seeking eco-friendly hotels, according to research by Booking.com.

With a growing interest in green standards for hotels and the inclusion of eco-certifications in search results by Google and Booking.com, customers are increasingly likely to opt for environmentally friendly choices. Therefore, as a key factor influencing the segmentation of successful and less successful establishments, **hotels are expected to proactively address environmental concerns**, and failure will make them vulnerable to greener competitors.

Asset-light Strategy

Figure 44 – Asset-light Strategy



Source: Company Data

In recent years, companies are strategically **transitioning from asset-heavy to asset-light business models** (Figure 44). This shift allows companies to achieve **accelerated growth** while **minimizing both capital investment and the associated risks linked to hotel ownership**. By embracing an asset-light approach, hotel companies can leverage partnerships, franchise agreements, and management contracts, enabling them to **expand their footprint without the burdens of significant capital expenditures and operational responsibilities**. This trend not only fosters flexibility in adapting to market dynamics but also aligns with a broader industry evolution towards more scalable and sustainable business models in the competitive landscape.

3.3 Competitive positioning

Peers Identification

For the competitive positioning analysis, it was considered all reported main competitors in Hilton's 2022 Annual Report for the identification of the Company peers. Additionally, procedures

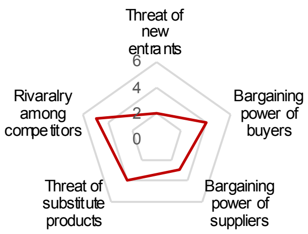
[8] According to Hilton's research
[9] According to Accenture research

Table 6 – Hilton Peers

Name	Market Cap ($'Bn)
Hilton	43
Peers	
Choice	6
Hyatt	11
Intercontinental	12
Marriott	60
Wyndham	6

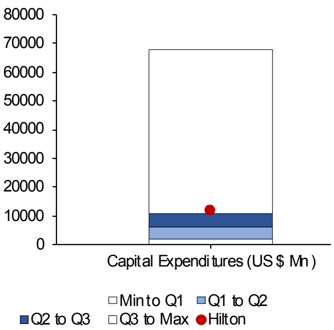
Source: Bloomberg

Figure 45 – Porter's 5 Forces



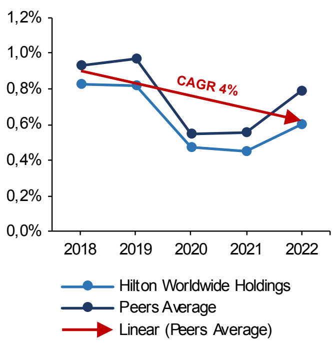
Source: Author Analysis

Figure 46 – Hotels & Other Industries Average CapEx ($'Mn)



Source: Damodaran and Author Analysis

Figure 47 – OpEx per number of rooms (%)



Source: Company Data

were performed for a MBV, including a SARD approach, leading to the following group of peers: (i) Choice Hotels International; (ii) Hyatt Hotels Corporation; (iii) Intercontinental Hotel Group; (iv) Marriott International; and, (v) Wyndham Hotels & Resorts (Table 6).

Industry corporate strategies

Growth strategies of peers are similar to Hilton's, including: (i) **EMEA and Asia & Pacific operational expansion**, and, (ii) **guest loyalty programs**. From 2021 to 2022, industry average growth rate in EMEA and Asia & Pacific markets was 11% and 8%, respectively, as total number of rooms. In the Asia & Pacific region, Hilton stands out from all other peers, with a growth rate of 16%. Additionally, loyalty programs are prevalent among the five peers and are comparable to Hilton Honors (Table 1).

A less commonly agreed-upon approach within the industry is whether to grow through acquisitions or internal development. In recent years, on the **opposite side of Hilton, most of the Peers have been using M&A to build their expansion**. Hilton itself used this strategy in the past, but the substantial growth in the number of brands in the last 5 years has resulted in superior return on invested capital compared to the median of its peers (Figure 10).

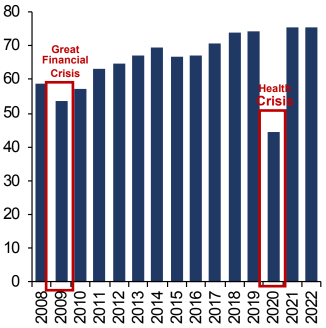
Porter's 5 forces (Figure 45)

1.Threat of new entrants | Low (2)

The potential threat from new entrants in the industry is relatively low, considering:

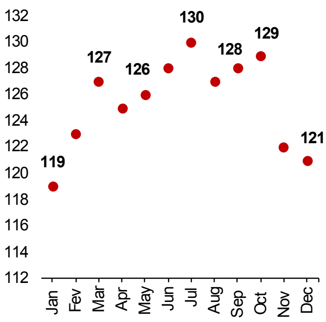
- **Required substantial capital investment,** as hotel industry demands substantial financial investment for both development and operational phases of properties. This includes expenses for construction, furnishings, and ongoing maintenance to ensure competitive establishment (Figure 46).
- The Ownership and Management & Franchise segments of the Hospitality industry display **economies of scale**, evidenced by an average decline of 4% CAGR FY18-22 in cost per number of rooms (Figure 47). Therefore, a new entrant would face challenges in matching established peers' extensive network of hotels, which is necessary to breakeven and dilute the costs associated with managing the operations.
- **Establishing guest loyalty is challenging**, because the industry is full of robust brands with devoted customers, that incentivized by rewards of guest loyalty programs, may be reluctant to transition to lesser-known alternatives.
- Compliance with **regulatory and government policies** is a significant aspect of the hotel industry, involving strict adherence to zoning laws, rigorous safety protocols and licensing requirements, which represent a long-term journey and protect the current players.
- As new entrants join the market as a viable threat, it is anticipated that **existing players retaliate**. Established players, backed by significant financial resources, are capable of overcoming most strategies employed by newcomers or opt to acquire, a common practice in the industry.

Figure 48 – Consumer Spending ($ per capita)



Source: IMF, World Bank, UN, Eurostat

Figure 49 – Monthly ADR ($)



Source: STR, monthly average US markets 2015-17, inflation adjusted

2.Bargaining power of buyers | Medium – High (4)

Bargaining power of buyers is medium to high, due to the following factors:

- **Economic conditions and price sensitivity,** because during economic downturns or periods of uncertainty (ex: recession periods), buyers may become more price sensitive (Figure 48). The increased emphasis on affordability amplifies client’s negotiation strength.
- **Massive group of different kinds of buyers,** comprising a wide range of demographics, including, individual, family, business, and leisure travellers. With a wider range of brands that target different types of customers with different preferences (Appendix 3.2), major players, such Hilton and its five peers, benefit from having a larger pool of different types of users.
- This industry is characterized by **seasonal demand and occupancy rates.** Therefore, during off-peak seasons or periods of low demand, occupancy rates decrease but monthly ADR changes are essentially non-existing across the year (Figure 49), indicating that buyers have limited leverage in negotiation rates in off-season periods.
- Clients can **easily access alternative accommodation options**, having numerous alternatives that can easily be compared through online booking platforms, **with associated low switching costs** between alternatives, clients have a strong negotiation position.

However, certain factors might counterbalance the buyer’s power, including the guest loyalty programs.

3.Bargaining power of suppliers | Medium (3)

The Bargaining power of buyers is medium, considering:

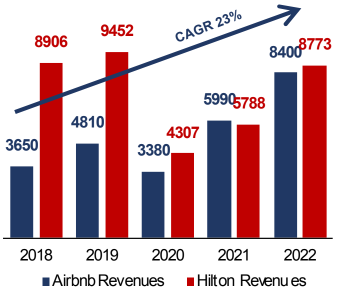
- Typically, industry players engage with a **massive group of different suppliers** for various goods and services, which moderates the individual bargaining power of each supplier.
- Suppliers linked to Hilton’s **brand partnerships**, offering exclusive services, may have a certain degree of bargaining power. The uniqueness and value of the partnerships, especially for the offers of guest loyalty programs, can influence negotiations. **Hilton Honours’ principal partners include American Express, Amazon and Lyft**.
- **Online platforms**, such as Booking, act as indirect suppliers for hotels, providing them with clients who book their stays through these platforms, which hold a significant power in increasing fees for this service.

4. Threat of substitute products | Medium – High (4)

The actual threat of substitute services is medium-high, given that:

- **Traditional accommodations maintain significance** due to the overall experience provided, including security and standardized level of service.
- The **popularity of alternative stays**, such as vacation rentals and unique lodging experiences, that are provided by substitute companies, may pose a long-term threat as

Figure 50 – Revenues ($'Mn) Hilton vs Airbnb



Source: Company Data

travellers increasingly seek diverse accommodation options. One of the **primary concerns regards on Airbnb, which has experienced a 23% increase in revenues** over the last 5 years (Figure 50).

5. Rivalry among existing competitors | High (5)

- There are numerous players in the industry, and most of them demonstrate comparable size and influence (Table 6).
- The industry is marginally expanding, and companies find themselves in a **competitive struggle to secure additional market share** (Appendix 3.3).
- The competitive landscape often triggers **price wars** and aggressive discounting strategies to attract customers, which impacts profit margins of Hilton and its competitors.

SWOT Analysis

Figure 51 – Swot Analysis

Strenghts
- Strategic segments and partnerships
- Strong brand comprehensive portfolio
- Corporate social responsibility

Weaknesses
- Business seasonality
- High level of indebtness
- Linked controversies

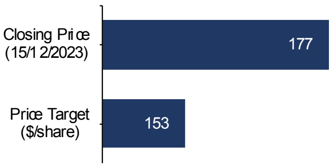
Opportunities
- Expansion in emerging markets, particularly MEA
- Presence in long-term lodging market (ex: H3 Project)
- Opportunities linked to organic growth and tailored brands for customers.

Threats
- Geopolitical tensions
- Israel war may possibly threat MEA expansion
- Fierce competition
- Cyber risk
- Labour shortages

Source: Author analysis

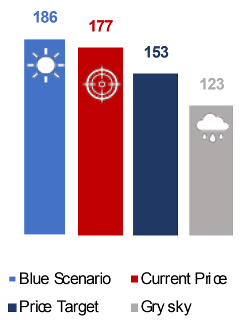
4. Investment summary

Figure 52 – PT Vs Current Price



Source: Author Analysis

Figure 53 – Blue and Grey Scenario



Source: Author Analysis

The recommendation of the **base case for Hilton is to SELL**, corresponding to a **2024YE PT of $153/Sh.**, representing a **total shareholder return of -17%, within the next 12 months**, against the closing price of $177/Sh. (15/12/2023) (Figure 52) .

The valuation is contingent on rooms sales value, therefore a Blue and Grey Scenario was performed. Projections for a **Blue and Grey Scenario** were established based on the assumptions of Table 7, resulting in 2024YE PT of $186/Sh. and $123/Sh., respectively (Figure 53).

Despite the base case SELL recommendation, Hilton holds a strong position within its industry, and it is expected that it will continue to grow its market presence and increase operational efficiency, through the strategic expansion into emerging markets as well as the progressive adoption of an asset-light business model. The SELL recommendation is mainly based on the following key pillars:

- **Constant dividends per share,** that are reliable yet questionable, primarily due to the ongoing increase in EPS. The consistent rise indicates that shareholders may experience

Table 7 – Blue and Grey Scenario Assumptions

Scenario Assumptions		
Description	Blue	Grey
Room Sales per Night	+$10 per room	-$10 per room

Source: Author Assumptions

a continual decrease in the pay-out ratio over the years.

- **Skyrocketing share price over the past six months**, moving from $140/Sh. (20/06/2022) to $177/Sh. (15/12/2023), which might indicate a peak in the market enthusiasm. Therefore, shareholders could consider capitalizing on this peak by selling their shares, avoiding losses before potential shifts in market sentiments.

Valuation Methods

The absolute methodology**, FCFF discounted at WACC,** was used as the base case model (Appendix 5.8). Moreover, **two different Multiple Based Valuations** including (i) Current TTM MBV; and, (ii) Forecast 2024F MBV (Appendix 5.11). However, the relative valuation methodologies were **not considered significant in the recommendation decision**.

Investments Risks

Hilton is exposed to significant risks that must be highlighted to investors. The Company is **highly sensitive to variations in room sales price** per night. Furthermore, there is evidence that the **Israel-Palestine war can harmfully affect Hilton's operations** in surrounding areas.

Figure 54 – Valuation Summary

Source: Author Analysis

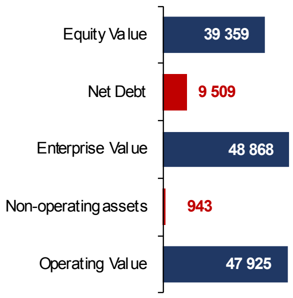
5. Valuation

5.1 Free Cash Flow to the Firm – Integrated Approach

FCFF was used as the base model for Hilton's valuation. It was determined the Company's price target, with a two-stage DCF, where a comprehensive **2023-30F FCFF schedule was formulated** and complemented with a **perpetual period model incorporating a stable growth rate** (Appendix 5.8).The FCFF yields a **2024YE of $153/Sh.**, corresponding to a total shareholder return of -17%, against the closing price of $177/Sh at 15/12/2023 (Figures 54 and 55).

The FCFF valuation is mainly impacted by: (i) **Room sales per region**; (ii) **WACC rate assumptions**; and, (iii) **Long-run sustainable growth rate and terminal value**.

Figure 55 – FCFF Equity Value Breakdown ($'Mn)



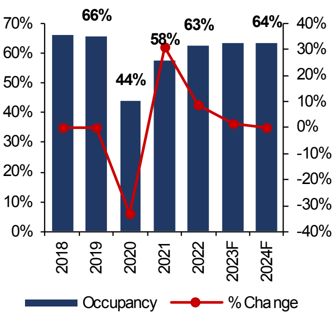
Source: Author Analysis

Room sales per region

As previously mentioned, **room sales are the key value driver for revenue growth**. Expecting a global economic and travel recovery, all regions are projected to achieve **pre-pandemic occupancy levels by 2025F**. **RevPAR is expected to increase above real GDP growth until pre-pandemic values**, despite a potential economic recession, driven by the gradual recovery of occupancy rates and high **inflationary pressures on ADR**. Forecasted growth of **total revenues for management and franchise** is **aligned with the historical average growth of corresponding fees** of the period FY2018-22, and **the same applies to revenues from packages, food & beverage, and other ancillary revenues** within the ownership segment.

Detailed analyses of occupancy rates and ADR growth were conducted on a region-specific basis (Appendix 5.6).

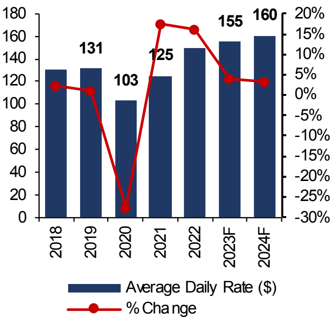
Figure 56 – US Occupancy Rate (%)



Source: PwC and Author Analysis

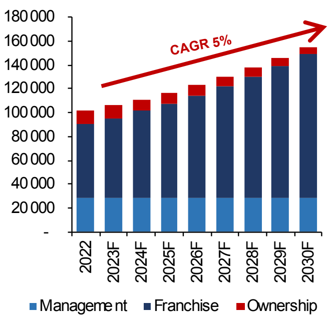
US and Americas

Figure 57 – US ADR ($)



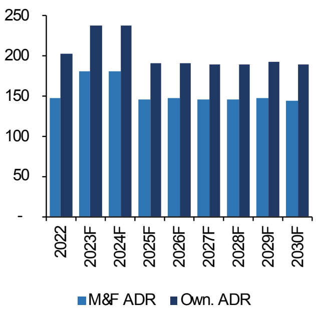
Source: PwC and Author Analysis

Figure 58 – Europe Number of Rooms



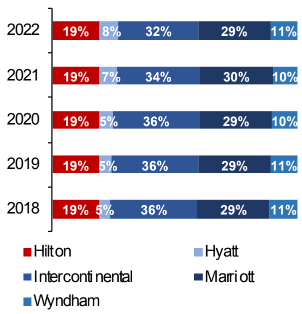
Source: Author Projections

Figure 59 – Europe ADR



Source: Author Projections

Figure 60 – EMEA Market Shares



Source: Company Data

The **US and Americas room sales will grow at a 4% and 5% CAGR FY2022-30F**, respectively (Appendix 5.7).

After 2022, the **US hotel and travel industry showcased a resilient rebound** marked by a gradual improvement in occupancy rates, due to an increase in international tourism arrivals and surge in consumer spending. This **positive momentum is anticipated to persist until 2025F**, aligning with pre-pandemic levels observed (Figure 56). However, the **hotel revenue growth is expected to decelerate as further recovery in occupancy rates is balanced with lower ADR**, with the stabilization of inflation rates and global economic outlook (Figure 57). From 2025F onwards, RevPAR is expected to be consistent with Real GDP growth, inflation rates and travel industry overall growth.

Due to the growing adoption of an asset-light strategy, the **number of owned rooms in the Americas is forecasted to remain stable and be consistent with the growth trajectory** of previous years (0%), aligning with the expectation of **no additional openings for owned rooms**. The **expansion of management and franchise rooms** is projected to follow this strategy, **consistent with the CAGR observed in the period FY2018-22**, which reinforces Hilton's positive outlook on growth and expansion within this segment.

Europe

In Europe, **Hilton's room sales are expected to grow at 7% CAGR FY2022-30F**, at a lower rate than MEA and Asia & Pacific. **Investment growth** in this market is **anticipated to be more gradual compared to those regions**, with the **total number of rooms** forecasted to **increase at a moderate CAGR FY2022-30F of 5%** (Figure 58).

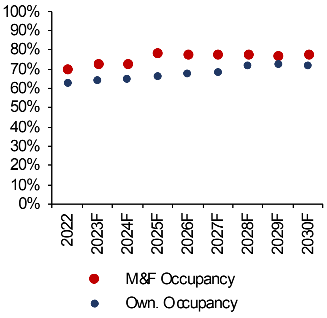
The company's **occupancy rates have shown signs of recovery post FY2020**, driven by (i) the release of pent-up consumer demand[10]; (ii) revival of intra-regional tourism; and, (iii) more visitors from US and China. Despite challenges such as the conflict in Ukraine and prevailing market uncertainties, occupancy rates are expected to **reach pre-pandemic levels by 2025F**, with major events in the regions, including the 2023 Rugby World Cup and the 2024 Summer Olympics, supporting the positive trajectory. Due to elevated commodity prices driven by the war and broadening price pressures, **ADR for 2023F is projected to be 30% higher than the ADR recorded in 2019**. This heightened ADR is expected to **remain steady until 2024F**, **after which a decline is anticipated to normalized prices**, due to the projected deceleration in inflation rates (Figure 59).

MEA

Hilton's **room sales in MEA** are expected to **increase by 32% YoY in 2023F, and 21% YoY in 2024F**. The growth is driven by a combination between Hilton's already established presence in MEA (Figure 60) and the robust growth of the tourism sector within the region. The Company plans to be strategically positioned to actively contribute and take advantage of the ongoing expansion and diversification of MEA's hospitality industry. Therefore, as mentioned before, a **substantial 160% increase in the number of managed rooms by 2027F is anticipated**,

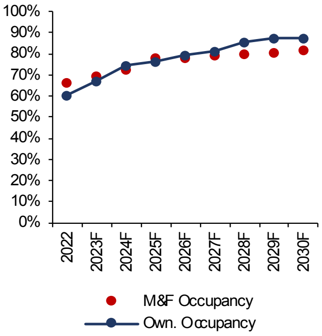
[10] Pent-up travel refers to the accumulated desire to travel that builds up during a period when travel is limited or restricted

Figure 61 – US Occupancy Rates Forecast



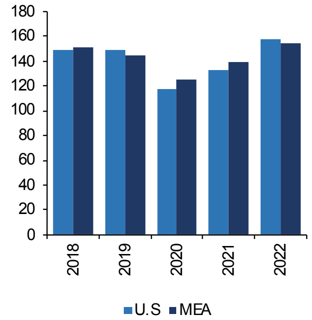
Source: Author Projections

Figure 62 – MEA Occupancy Rates Forecast



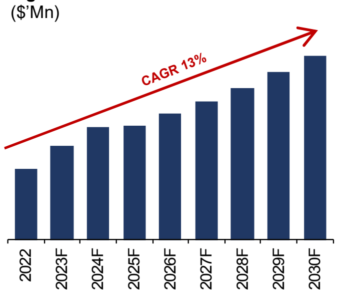
Source: Author Projections

Figure 63 – ADR US vs MEA



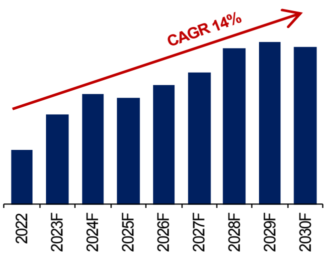
Source: Company Data

Figure 64 – MEA Rooms Sales ($'Mn)



Source: Author Projections

Figure 65 – Asia & Pacific Room Sales ($'Mn)



Source: Author Projections

showing a consistent upward trend over the years. Subsequently, the expectation is for the number of rooms to perpetually increase at the same rate as the registered growth in 2027F (**8% YoY**). On the other hand, the **number of owned rooms is expected to decrease in accordance with the -3% CAGR** observed in the period FY2018-22, aligning with Hilton's asset-light strategy.

Fuelled by the resilient market dynamics and tourism focus, especially in the Middle East, **occupancy rates will fully recover pre-pandemic values in 2024F**, and will **grow above US in 2025-30F** (Figures 61 and 62). Historically, ADR applied in hotels in MEA is higher than the ones of US, excluding the years impacted by the pandemic (Figure 63). This trend is expected to persist in 2023-30F. Reasons include (i) predominance of luxury and premium segments in the MEA market and, (ii) still limited supply meeting the rising demand. The growth will reflect a CAGR of 13% in FY2022-30F in room sales (Figure 64).

Asia & Pacific

Hilton's **room sales in Asia & Pacific** are anticipated to experience **significant growth in 2023F, circa 64% YoY**, attributed to the reopening of borders by major travel hubs, such as mainland China, Japan, and Hong Kong, coupled with a sustained surge in "pent-up" travel demand. In response to these dynamics, occupancy levels in 2023F were initially expected to reach 90% of FY2019 values. However, surpassing expectations, the 9-month occupancy rate ending September 30 achieved 70% and the estimate was revised, projecting **occupancy at 95% of the 2019 levels for 2023F.**

Looking ahead to **2024F, the full return to pre-pandemic occupancy and ADR levels** is projected to happen, followed by a **gradual growth in occupancy rates in 2025-28F**. Moving into **2028-30F**, occupancy rates are expected to **increase consistently in alignment with demand drivers**. Therefore, room sales are expected to increase at 14% CAGR in FY2022-30F (Figure 65).

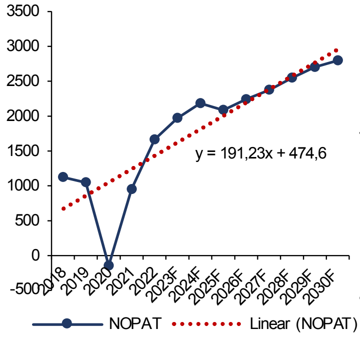
WACC assumptions

The WACC method was used to discount the FCF, considering a targeted long-term debt-to-equity ratio of 23%, derived in accordance with Hilton's average historical target weights, and consistent with industry medians. It is anticipated a **stable capital structure** over the long term, aligning with Hilton's historical consistent leverage.

The **CAPM model was employed to determine the cost of equity**. Including in a model are: (i) a **1.92% RFR**, aligning with the 10-year YTM of the US Treasury Bond in 2019YE, which corresponds to the local bond methodology, assuming a zero CRP because of the Company's headquarters in US; (ii) **ERP of 3.8%**, sourced from Damodaran (2023); and, (iii) **levered beta of 1.14**, computed through the regression beta methodology against the S&P500 and incorporating the Blume adjustment.

To determine the cost of debt, the Default Risk Model was applied, yielding a **3.34%**. Historically, Hilton has demonstrated an upward trajectory in interest coverage, except for the pandemic-affected years in 2020 and 2021. Anticipating this trend to continue in 2023-30F, Hilton's credit spread rating is projected to increase to A. Consequently, for the determination of the cost of

Figure 66 – Linear Regression NOPAT



Source: Author Analysis

debt, an estimated **Company Default Spread of 1.42%**, aligning with the observed trend (Appendix 5.9).

Long-run sustainable growth rate and terminal value

In the second stage of the DCF model, the terminal value of Hilton was derived using a perpetuity through a **stable growth model**. Additional steps performed at this stage included: (i) **normalizing the FCF**; and, (ii) **computing the long-term sustainable growth rate** (g).

Normalization of Cash Flows

The **normalized NOPLAT was calculated to account for business cycle variations** and generate a mid-cycle cash flow adjusting the FCFF. The normalization process involved applying a **linear regression to the 2018-2030F**, reflecting the 12 years business cycle (Figure 66).

Long-run sustainable growth rate

It was determined a **4.1% long run sustainable growth rate**, considering **the world real GDP CAGR of the 2030-45F period**, **adjusted to US inflation**. The world real GDP CAGR was used as a proxy because it **reflects the overall economic health and influences consumer spending on travel**. The correlation between economic growth and the hospitality industry suggests that **RevPAR tends to mirror GDP fluctuation**. However, RevPAR is expected to growth above the GDP until pre-pandemic values, and it's expected to rebound to pre-pandemic figures by 2024-25F. Subsequently, it is anticipated that RevPAR will align closely with the global economy, reflecting changes in Real GDP thereafter.

5.2 Multiples Based Valuation

Besides the absolute valuation methods, Multiples Based Valuation Models were used, including Trailing Twelve Months MBV and 2024F MBV models. However, **both exhibit limitations**.

Table 8 – SARD Peers Rankings

SARD Rank	Company	SARD
1	Marriott	12
2	Intercontinental	14
3	Choice	19
4	Wyndham	21
5	Hyatt	29

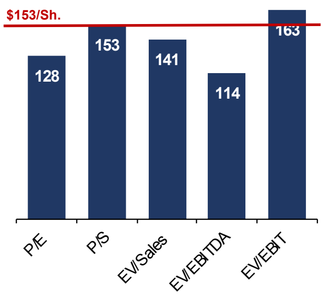
Source: Author Analysis

Peers Group and Multiples Selection

The selection of the peer group was conducted using a **Top 5 players SARD approach**. The approach **provided 5 publicly listed companies with similar risk-adjusted cash flow patterns** and **growth potential** (Table 8) (Appendix 5.10).

Regarding the **multiple's selection**, the standard **Price** (Price-to-Earnings and Price-to-Sales) and **EV multiples** (EV-to-Sales, EV-to-EBITDA, EV-to-EBIT) **were considered**. Within these multiples, the **EV multiples are usually more reliable**, **particularly EV-to-EBITDA**, as they eliminate the distorting impact of diverse capital structures, non-operating assets, and items in the income statement not related to core operations.

Figure 67 – Summary TTM MBV ($/Sh.)

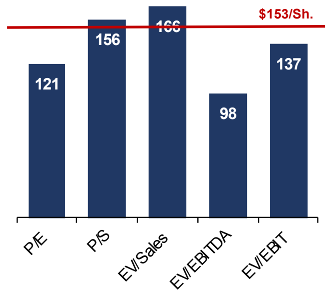


Source: Author Analysis

Trailing Twelve Months (TTM)

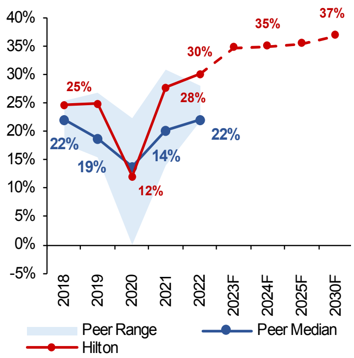
Price Multiples over TTM have yielded incongruent results, because TTM multiples are not optimal for establishing 2024F PT, as they rely on historical data, rather than 2024F projections. Based on TTM EV multiples, **2024F Price Targets range between $114/Sh. and $163/Sh.**, **considering the 75% percentile**. The third quartile was used, as Hilton has higher multiples compared to most of its industry peers, due to its strong financial performance, brand strength

Figure 68 – Summary 2024F Multiples MBV ($/Sh.)



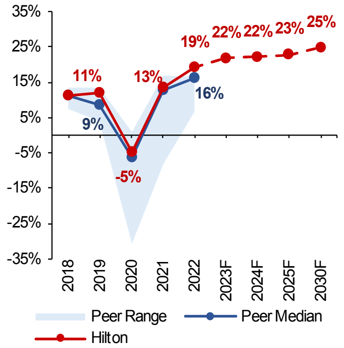
Source: Author Analysis

Figure 69 – Hilton and Peers Gross Margin (%)



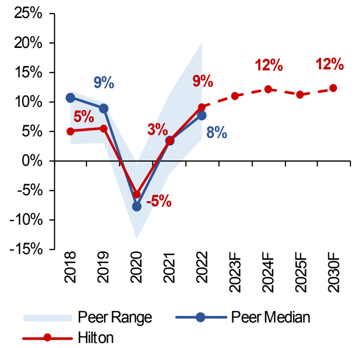
Source: Company Data and Author Projections

Figure 70 – Hilton and Peers Profit Margin (%)



Source: Company Data and Author Projections

Figure 71 – Hilton and Peers ROA (%)



Source: Company Data and Author Projections

and market position. Particularly, the EV-to-EBITDA price target is $114/Sh., which corresponds to a SELL recommendation (Figure 67).

2024F Multiples

The 2024F multiples were also determined, where fundamentals from Hilton's peers were estimated using Bloomberg estimates for 2024. However, the EV-to-EBITDA multiple also **provided undervalued 2024F Price Target ($98/Sh.),** because multiples denominators are based on projected 2024F values, but EV (numerator) corresponds to the 2022YE EV (instead of the projected 2024F EV), resulting in inconsistencies (Figure 68).

Based on the limitations above, MBV was not considered relevant for Hilton's valuation.

5.3 Dividend Discount Model

The **Dividend Discount Model is inadequate** as Hilton's dividend payments haven't shown a consistent upward trend. Apart from 2020 and 2021, Hilton has maintained a steady quarterly dividend of $0.15/Sh. since 2017, a pattern that the BoD plans to sustain in the projected period (Figure 19).

6. Financial analysis

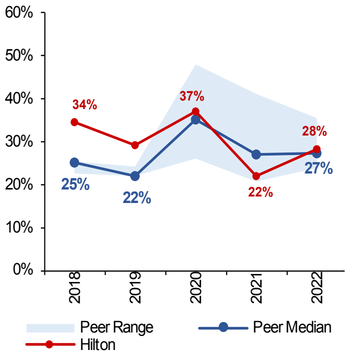
The following analysis is conducted through two distinct comparative perspectives: (i) Hilton vs Direct Peers, comprising peers actively embracing an asset-light strategy – Hyatt, Marriott, and Intercontinental; and (ii) Hilton vs Franchisors, i.e., hotels exclusively managing and franchising properties, including Wyndham and Choice Hotels.

Capital-light leads to higher profitability

Hilton has historically maintained higher gross margins compared to its peers. However, the COVID-19 pandemic resulted in a significant **decline to 12%**, **falling below industry peers** (Figure 69). The recovery in occupancy rates and cost cutting measures not only enabled Hilton to fully recover its pre-pandemic margins but also surpass them, showcasing its **outperformance compared to industry peers**. With the progressive transition to asset-light business model, **gross margins are expected to gradually increase and further stabilize to 37%. Profit margins** and **net profit margins** are expected to follow the same trend in 2030F, stabilizing to **25%** and **21%**, respectively (Figure 70 and Appendix 6.2). The increase in margins is highlighted by the performance of peer franchisors, who exhibit higher margins, indicative of heightened operational efficiency (Appendix 6.3).

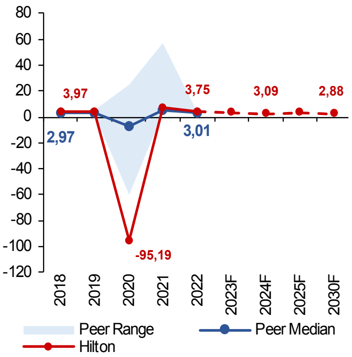
Despite having slightly higher margins than its closest competitors, the **ROA is not significantly high** (**9%**), primarily due to the **impact of asset turnover** (Figure 71). Hilton's lower asset turnover compared to its peers is associated with the less efficient use of assets, in exception of **PP&E, where Hilton demonstrates considerably more efficiency than its peers** (Figure 11). The gradual implementation of an asset-light approach reduces the need for significant capital investments, providing greater scalability and operational flexibility, which, in turn, enhances asset utilization and overall efficiency, as illustrative in Appendix 6.3.

Figure 72 – Hilton and Peers Market D/E (%)



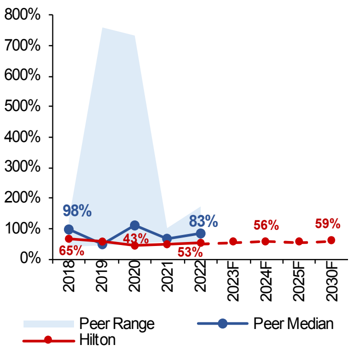
Source: Company Data and Author Projections

Figure 73 – Hilton and Peers Net-Debt to EBITDA (x)



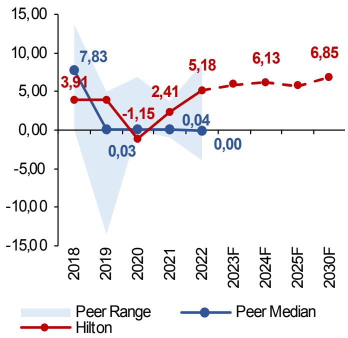
Source: Company Data and Author Projections

Figure 74 – Hilton and Peers Current Ratio (%)



Source: Company Data and Author Projections

Figure 75 – Hilton and Peers Interest Coverage (x)



Source: Company Data and Author Projections

Building financial resilience

Prior to the pandemic, Hilton held the **highest leverage among its peers**, with a Debt-to-market Equity exceeding industry ranges. However, in the 2018-22 period, **Hilton's leverage decreased to a 28% Market D/E** (Figure 72). The **capital structure is expected to remain constant**, aligning with the industry median.

The **Net Debt-to-EBITDA ratio**, consistently surpassing industry peers except for the pandemic year of 2020, is **projected to decrease in the 2023-30F period, from 3.75x to 2.88x**, considering the **expected growth in EBITDA** (Figure 73). The contrasting financial impacts in 2020 highlight the **resilience of the asset-light model during economic stress**, which results from the asset-light models having distinct financial structures and lower risk profiles compared to hotels with heavier asset ownership (Appendix 6.3).

The current ratio of 53%, lower than the peers' median of 83%, is driven by Hilton's efficiency in managing its working capital (Figure 74). Additionally, the **ability to cover interest payments has increased from 3.91x in 2018 to 5.18x in 2022**, exceeding the competitor's median (Figure 75). The expectation is to reach **6.85x in 2030**, emphasizing the **increasing ability of Hilton to cover its debt obligations** over the years. This rise is driven by the enhanced **operational efficiency and financial resilience resulting from the strategic shift to asset-light**, as evidenced by the higher interest coverage observed among franchisor peers (Appendix 6.3).

It is crucial to mention that the Debt-to-book Equity and Equity Multiplier analyses do not provide an accurate indication of solvency. This is attributed to the consistent decrease in equity value since the initiation of Hilton's share repurchase program in 2017, aimed at returning value to shareholders, which resulted in negative value of equity in 2019YE, primarily due to the repurchase of approximately 16.9Mn shares worth $1.5Bn.

Low dividend commitment

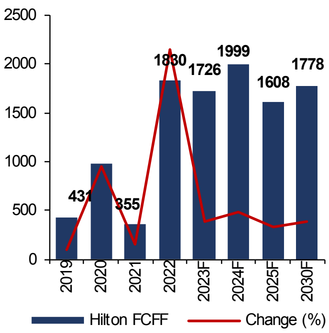
Hilton's dividend pay-out is currently **10%**, **lower than the peers' median of 14%**. The BoD's commitment to maintain a constant quarterly dividend per share anticipates a decline in the pay-out ratio to **5% in 2030F**, driven by increasing net income and Hilton's ongoing stock repurchase program (Figure 19). This dividend policy is **less attractive when compared to peers** and might not align with the preferences of investors looking for immediate high-income returns.

Cash Flow Generation

Hilton's cash flows exhibited **considerable volatility during the 2018-20 period**, reflecting the disruptive impact of the COVID-19 pandemic and the economic downturn. However, **CF significantly increased in 2022 to $1.8Bn**, indicating a resilient financial position and recovery. The expectation is for Hilton to sustain a more consistent generation of CF in the period 2023-30F (Figure 76).

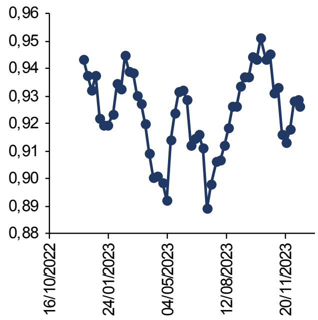
Nevertheless, Hilton should continue to **focus on measures to sustain healthy cash flows** that adequately cover operational expenses, debt obligations, and potential future investments, to

Figure 76 – Hilton FCFF ($'Mn)



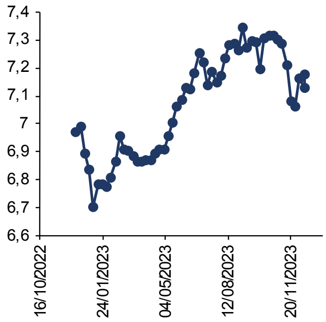
Source: Company Data and Author Analysis

Figure 77 – US-EUR Exchange Ratio ($)



Source: Bloomberg

Figure 78 – US-CNY Exchange Ratio ($)



Source: Bloomberg

Table 10 – Political Stability Global Rank

Country	Political Stability Global Rank	Number of Hotels
Ethiopia	Nº185	2
Nigeria	Nº181	2
Congo	Nº176	1
Haiti	Nº167	1
Turkey	Nº166	85

Source: 2023 Company

secure the **business sustainability and resilience**. With the **current operating CF ratio standing at 0.6x** and anticipated to grow to **0.7x in 2030F**, there exists room for improvement (Appendix 6.1).

7. Investment risks

7.1 Risk identification and characterization

Hilton Worldwide Holdings faces substantial risks that may have a material impact on its business, categorized as follows: (i) **Market risks**; (ii) **Political, legal & regulatory risks**; (iii) **Operational risks**; (iv) **Resources Risks**; and, (v) **Financial Risks**.

Market risks

World GDP Changes (M1)

The hospitality sector's success highly depends on the broader economic landscape and property levels. Economic downturns or extended periods of low economic growth may **result in reduced consumer spending within the sector**, impacting Hilton's business adversely, as observed in previous events that impacted the sector (Appendix 7.1). Projections for current market conditions in the industry may require constant reassessment, contingent upon changes in general economic conditions, which are related to (i) high inflation; (ii) supply chain disruptions; (iii) low consumer confidence; (iv) increases in unemployment rates; and, (v) depressed real estate prices.

Exchange rates (M2)

Given its international profile, Hilton conducts operations in 122 countries and territories, as a result, it is **vulnerable to shifts in exchange rates**, especially in relation to Euro and Chinese Yuan (Figures 77 and 78). Currency restructuring and hyperinflation or deflation in those countries may harm financial outcomes.

Public perception of travelling safety (M3)

The Coronavirus pandemic affected the consumer perception of travel and caused a sharp decline hotel's occupancy rates and ADR. Therefore, any **circumstances that unfavourably influence public perceptions** regarding the safety of travel, such as travel-related accidents, pandemic outbreaks of infectious diseases, **may result in decreasing demand**.

Political, legal & regulatory risks

Political Instability (P1)

Political unrest and significant shifts in the legal and regulatory landscape could adversely affect Hilton's global operation. Hilton's **presence in countries prone to civil unrest, terrorism, and local security issues** posed the risk of operational disruptions (Table 10). Such events may require **temporary closures of the company's hotels** or, in extreme cases, lead to the **bankruptcy of local third parties**.

In recent years, three **regions where Hilton has operations**, (i) **Russia;** (ii) **Ukraine**; and, (iii) **Israel, became involved in wars**. As a result, **hotels located in these countries and nearby areas** may **either close or experience a significant decline in operations and revenue** due to a decrease in tourism activity and a reduction in the number of flights, with the existing flights predominantly being allocated to journalistic or political travel (Appendix 7.2).

Operational risks

Third-party owners (O1)

Table 11 – Primary third-party incidents faced by Management & Franchise Companies

Incidents	% Companies affected
Reputational damage	26%
Financial or transaction reporting errors	23%
Non-compliance with regulatory requirements	23%
Brench of sensitivity customer data	21%
Lost business	10%

Source: Adapted by author, based on "Third-party governance and risk management", Deloitte 2016

Third-party owners are **inherent to the Management & Franchise segment** but might **tremendously impact the Company results**. Maintaining connections, securing favourable contract terms, and navigating real estate investment risks are crucial for Hilton's growth and financial stability. Challenges such as (i) financing issues; (ii) potential disputes; (iii) failure by property owners to meet quality standards; and, (iv) others (Table 11) may harm Hilton's brand and result in contract terminations, further impacting revenues and operations. An efficient control framework adopted by Hilton's management team is crucial to avoid these risks.

Personal Data Management and Cyber-attacks (O2)

Cyber-attacks represent a significant threat to Hilton's operation, breaches in the Company's systems can lead to lost data, system interruptions, and business disruptions. If breached, Hilton risks losing customer trust and face lawsuits leading to a reduction in cash flows.

Hilton already **faced repercussions in cyber-attacks**, the most relevant occurred in 2014 and 2015, **receiving a $0.7Mn fine** due to mishandling two separate credit card data breaches. These past incidents suggest ongoing risks with hackers growing sophistication. Despite enhanced security measures, **preventing breaches remains a persistent challenge**.

Resources Risks

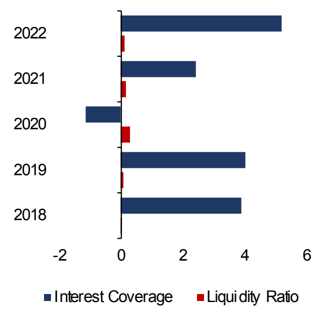
Labour Shortages (R1)

Difficulties in attracting, training, and retaining talent impact Hilton's ability to effectively operate. With a workforce of approximately 159 000 individuals employed globally as of 2022YE, the Company heavily relies on skilled employees. Therefore, staffing shortages in various parts of the world can hinder Hilton's operational efficiency, customer satisfaction, and ability to grow and expand its business.

Financial Risks

Indebtedness (F1)

Figure 79 – Liquidity Ratio and Interest Coverage (x)

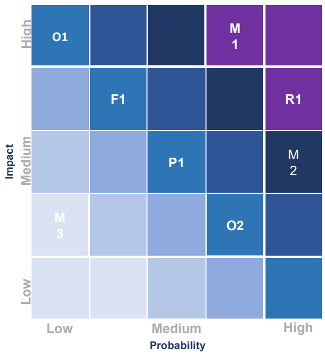


Source: Company Data and Author Analysis

High indebtedness poses risks to Hilton's financial stability and **operational flexibility**. With financial debt totalling $9.6Bn in FY2022 and anticipating a consistent capital structure in the upcoming years, Hilton may face constraints in using cash for operations and growth due to substantial interest and principal payments. Additionally, economic fluctuations and varying interest rates increase uncertainty. Non-compliance with debt obligations may limit the Company's ability to secure additional financing and make crucial business decisions (Figure 79).

Additional risks, along with the impact of Medium-High impact risks, can be found in Appendix 7.3 and 7.4.

Figure 80 – Risk Matrix



Source: Author Analysis

7.2. Risk Assessment

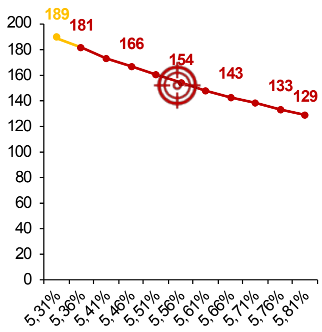
Given the risks described above, investing in Hilton is associated with a medium level of risk with the appropriate recommendation system represented in Figure 80. This assessment was based on: (i) sensitivity analysis; and, (ii) scenario analysis.

Sensitivity Analysis

Hilton's valuation is significantly impacted by the Company's main drivers of value creation. Therefore, a sensitivity analysis to the 2025F PT was performed considering changes in (i) **Long-run sustainable growth rate**, and, (ii) **WACC**[11].

In the base case scenario, a **long-run sustainable growth rate of 4.1%** is considered. Even **after adjusting** the respective value within the **range of [3.3%;4.9%]**, the **SELL recommendation remains unchanged**, affirming the same conclusion (Appendix 7.5).

Figure 81 – Relationship between PT ($) and WAC



Source: Author Analysis

Additionally, the base case used a terminal period **WACC of 5.6%.** The **relationship** between Hilton's PT and this variable is **nonlinear**, with the **elasticity of WACC to Hilton's PT decreasing as WACC increases**. Under the condition of all variables remaining constant, the recommendation would **shift to a Hold recommendation only when the WACC decreases to 5.3%** (Figure 81).

Scenario Analysis

Blue and Grey Scenario

As referred, room sales are the primary value driver of Hilton's valuation. Hence, it was **performed a blue and grey** scenario, making adjustments in the Room Sales per night in the (i) Management; (ii) Franchise, and, (iii) Ownership segments. For 2025F, the **blue scenario** assumes a $111/night/room for Management, $120 for Franchise, and $152 for Ownership, **resulting in a 2024F PT of $186/Sh.**, changing the recommendation to HOLD. On the opposite side, **the grey scenario assumes** a $91 for Management, $100 for Franchise, and $132 for Ownership, **resulting in a 2024F PT of $123/Sh**.

Table 12 – Potential Hotels Affected by Israel-Palestine War

Hotels	Region	# Rooms
Ownership Segment		
Hilton Tel Aviv	Tel Aviv	560
Conrad Cairo	Egypt	614
Total Rooms		**1174**
Management		
Waldorf Astoria Jerusalem	Jesuralem	226
Hilton Pyramids Golf	Egypt	229
Ramses Hilton	Egypt	811
Hilton Cairo Zamalek Residences	Egypt	164
Hilton Cairo Heliopolis	Egypt	589
DoubleTree by Hilton Sharm El Sheikh - Sharks Bay Resort	Egypt	629
Hilton Alexandria Corniche	Egypt	158
Total Rooms		**2806**

Source: Author Analysis

Evolution of Israel-Palestine War Scenario

The **base scenario** does **not consider the long-term effects of the evolution of the Israel-Palestine conflict**, including its **impact** not only on **Hilton's properties in Israel**, but also on **Egypt** given its border with Gaza.

During **FY2022**, **Hilton operated a total of 9 properties within these two regions**, comprising 2 owned and 7 managed properties. These properties represent 51% and 10%, respectively, of the total number of rooms in each corresponding segment within the MEA region (Table 12 and Appendix 7.6).

[11] The integrated approach of FCFF (WACC) model was the one performed

During the projected period, it was assumed that the **number of rooms within the affected region will remain constant**. However, the **occupancy rates are anticipated to decline by 39% in the Ownership segment** and **11% in the Management segment**, because of (i) security concerns; (ii) perceived instability; and, (iii) potential conflict escalation to other nearby regions. The decline differences arise from the fact that the Management segment holds more properties in Egypt, which will experience less impact in tourism, than Israel, an area that is currently designated as a war zone.

The effect on cash flows, discounted at the base case WACC, would be around $10Bn, **leading to a 2024F PT of $85/Sh., and the recommendation would be still SELL, but stronger than in the base case due to the lower expected return** (-17% vs -56%, respectively).

ESG concerned investor – the Virtuous Scenario

Table 13 – ESG Scenario Analysis

- Unlevered Beta	Q1 ESG
- WACC	6.5%
+ Price Target	$264
Change Recommendation	BUY

Source: Author Analysis

In the base case, a **neutral approach** was adopted **concerning Hilton's superior ESG Combined Score** relative to its peers.

According to Damodaran & Cornell (2020), incorporating ESG in the valuation can result in three different scenarios: (i) the **Virtuous Cycle scenario** (Appendix 7.7), where, companies with positive ESG practises are rewarded by both customers and investors; (ii) the **Punitive Vision scenario**, where companies with negative ESG practises are penalized by both customers and investors; and, (iii) the **Dystopian Vision scenario**, where companies with negative ESG practises are paradoxically rewarded by customers, either due to lower product costs or convenience, and investors invest in their shares expecting higher returns. Damodaran and Cornell (2020) also concluded that the **impact of ESG on firm value, market price, and excess returns is “highly ambiguous”**, providing justification for the authors' adoption of a neutral approach in the base case.

However, research suggests that ESG can be integrated into valuation purposes by either (i) **adjusting the future cash flows of the company**; or, (ii) **applying a premium to the cost of capital**. Nonetheless, there is currently no standardized and reliable approach for executing these adjustments.

In line with **Damodaran and Cornell’s Virtuous Cycle scenario**, the Authors **applied a discount to the cost of equity** by **adjusting the unlevered beta**, recognizing the concerns of an ESG-conscious investor.

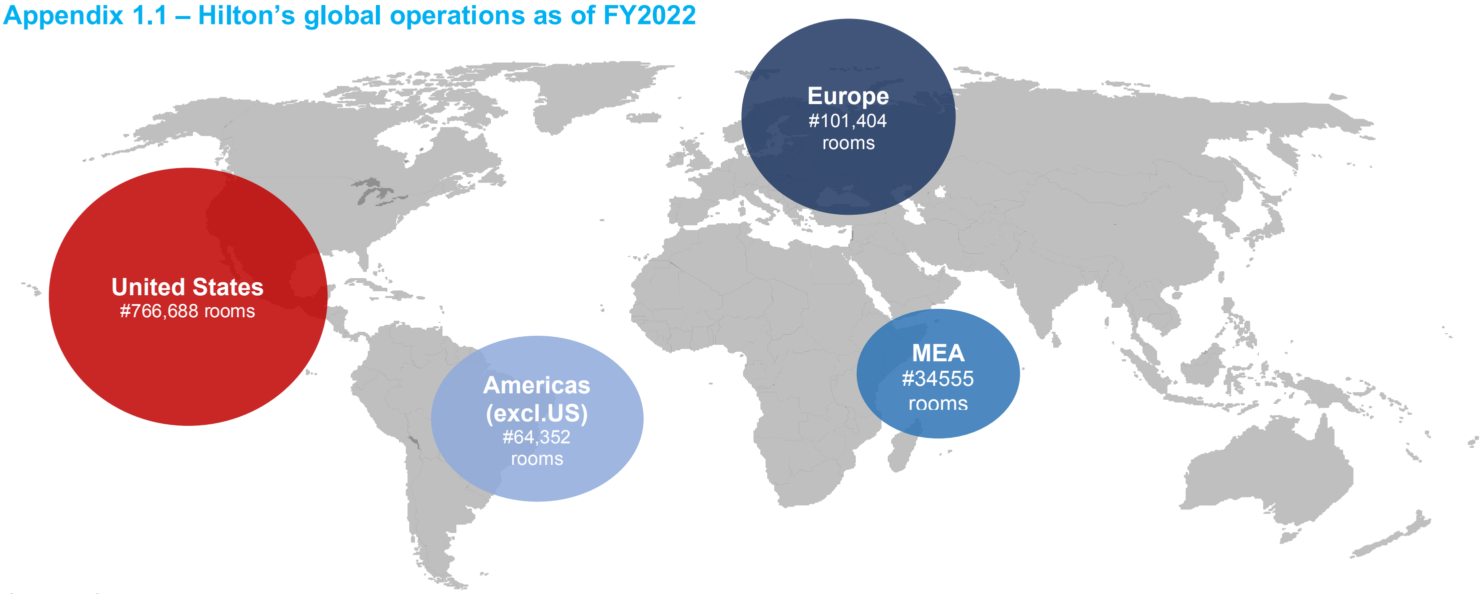
Considering the Refinitiv ESG Combined Scores of all Hotel Companies, Hilton is positioned in the best quartile. It was determined that Hotel Companies in the top quartile **exhibit a -43% lower unlevered beta compared to the broader industry**[12]. This percentage change was incorporated into the base case unlevered beta[13], yielding a **4.05% WACC**. Considering the respective adjusted WACC, the recommendation is to **BUY**, setting a **2024YE PT of $234/Share** (Table 13) tailored for an investor who considers ESG metrics into his investment decisions.

[12] Unlevered Beta of industry based on Damodaran
[13] Using the integrated approach FCFF (WACC) model

8. Appendix

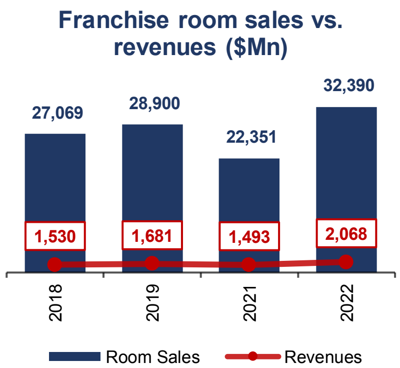
Appendix 1: Business Description

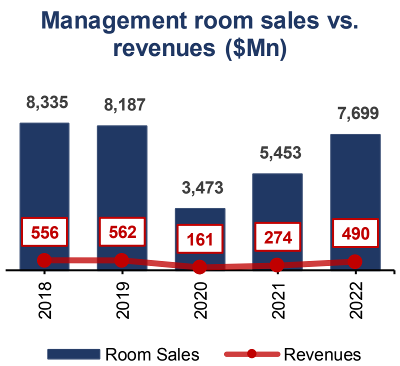
Appendix 1.1 – Hilton's global operations as of FY2022

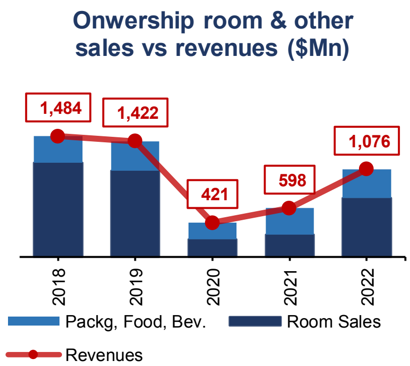


Source: Company data, adapted by Authors

Appendix 1.2 – Segments highlights







Source: Company data, adapted by Authors

Appendix 1.3 – FY 2022 Hilton's brand portfolio - classification by chain scale

Chain Scale	Brands
Luxury	Waldorf Astoria Hotels & Resorts (2006); LXR hotels & Resorts (2019); Conroad hotels & Resorts (1985);
Upper Scale	Canopy by Hilton (2014); Signia by Hilton (2019); Hilton Hotels & Resorts (1919); Curio Collection by Hilton (2014); Embassy Suites by Hilton (1984)
Upscale	DoubleTree by Hilton (2010); Tapestry Collection by Hilton (2017); Tempo by Hilton (2020); Hilton Garde Inn (1996);
Upper Midscale	Motto by Hilton (2018); Hampton by Hilton (1984); Homewood Suites by Hilton (1989);
Midscale	Tru by Hilton (2016);
Economy	Spark by Hilton (2023);
Timeshare	Hilton Grand Vacations (1992);

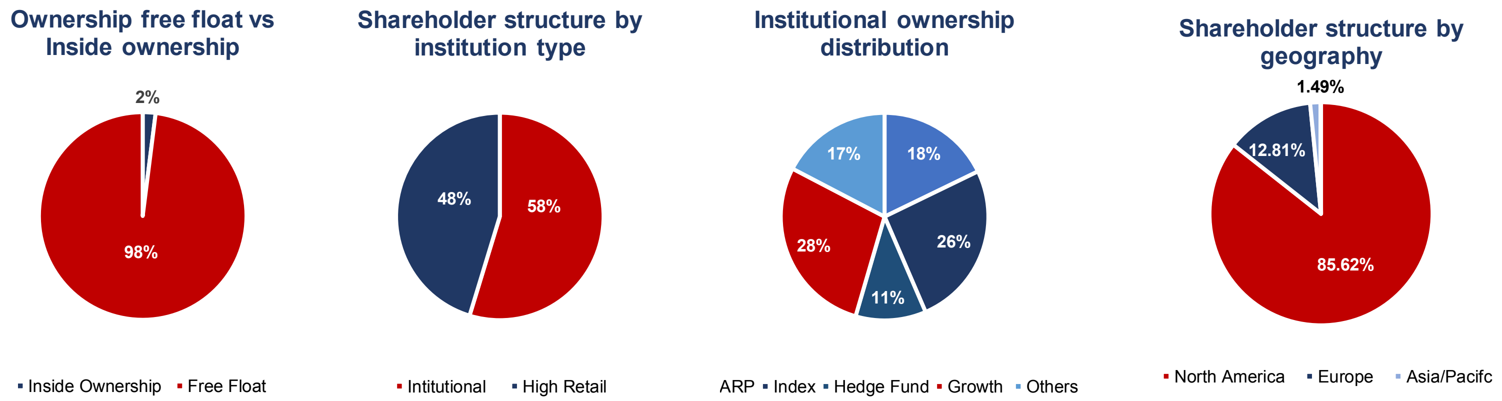
Source: Company data

Appendix 1.4 – Hilton's innovative digital solutions for SMEs

Solution	Description
Hilton for Business	Booking website especially designed to SMEs. It offers tailored digital solutions including: i) exclusive discounts; ii) loyalty rewards; iii) rapid and effortless onboarding; and iv) customized program management.; (Summer 2024)
Small Meetings and Event Package (via Events.Hilton.com)	Allows seamless booking for meeting packages accommodating up to 35 attendees, including guest rooms and event spaces. This enhancement simplifies the process for SMEs seeking efficient planning. (Summer 2024)

Source: Company data

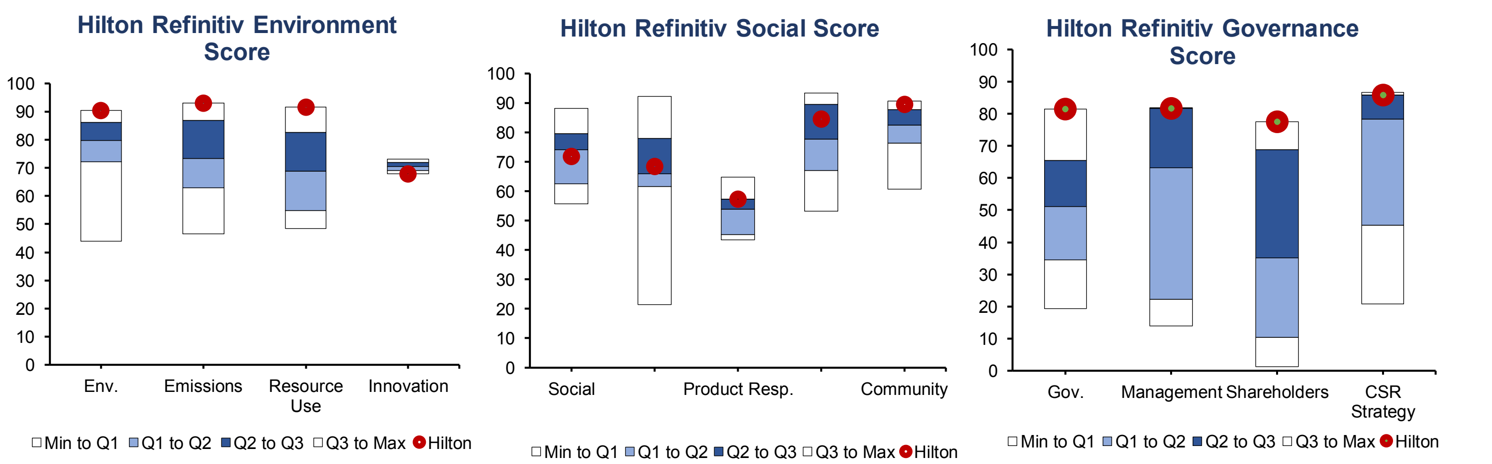
Appendix 1.5 – Hilton's shareholder information



Source: Bloomberg and Refinitiv

Appendix 2 – Environmental, Social & Governance

Appendix 2.1 – Refinitiv ESG Scores Breakdown



Source: Refinitiv, Company Data and Author analysis

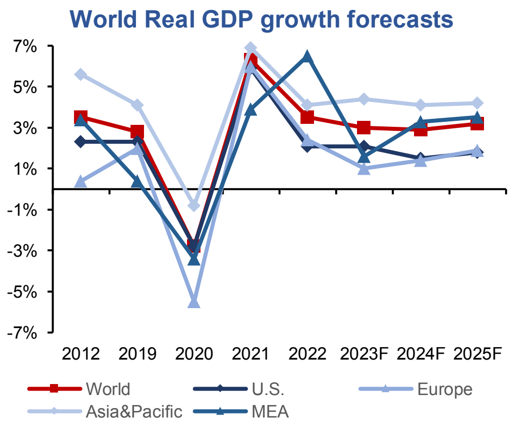
Appendix 2.2. – Hilton’s BoD External Roles

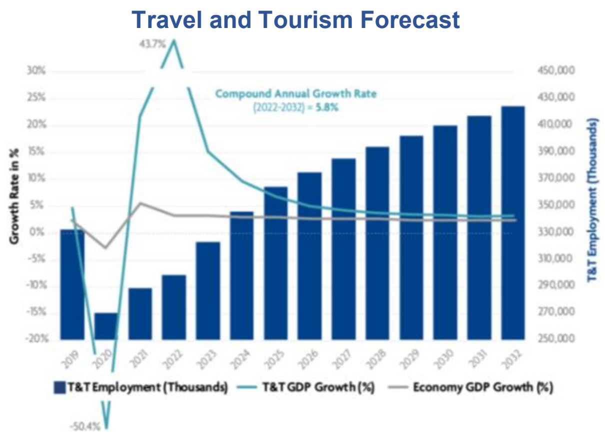
Hilton's BoD	
Name	**External Roles**
Board of Advisors	
Jonanthan D. Gray	President & CEO Blackstone; BoD Corebridge Financial; BoD Harlem Village Academies
Douglas M. Steenland	BoD American Airlines Group; BoD London Stock Exchange Group; BoD American International Group
Chrlistopher J. Nasseta	Advisor Board McIntire School of Commerce; BoD, nominating and corporate governance comitte & compensation comitte CoStar Group; Chair U.S. Travel Association; Member The Real Estate Rountable; Member Economic Club of Washington; Member of Federal City Council
Charlene T. Begley	Director and member of audit & risk comitte and Chair of the nominating & ESG Comitte Nasdaq; Director & Chair of Audit Comitteof SentinelOne
Chris Carr	BoD Recreational Equipment Inc.; Board of trustees Howard University & University of San Diego
Melanie L. Healey	Director PPG Industries Inc.; Director Verizon Communications Inc; Director Target Corporations; Director nomineeof Kenvue Inc.
Raymond E. Mabus Jr.	CEO The Mabus Group; Vice Chair InStride; BoD World Central Kitchen; BoD Environmental Defense Fund
Judith A. McHale	President & CEO Cane Investments LLC; BoD Paramount Global
Elizabeth A. Smith	BoD Bloomin' Brands Inc.; BoD Brown-Forman Corporation; BoD U.S. Fund for UNICEF

Source: Company data

Appendix 3 – Industry overview and Competitive positioning

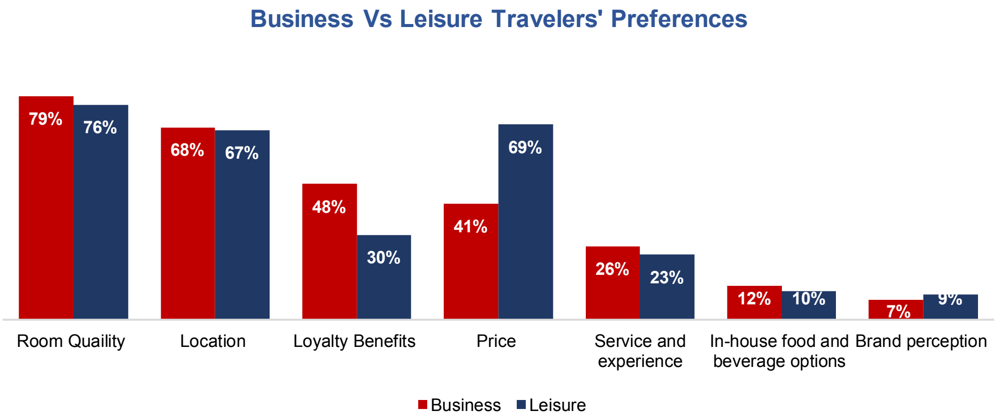
Appendix 3.1 – World Economic Outlook complementary charts





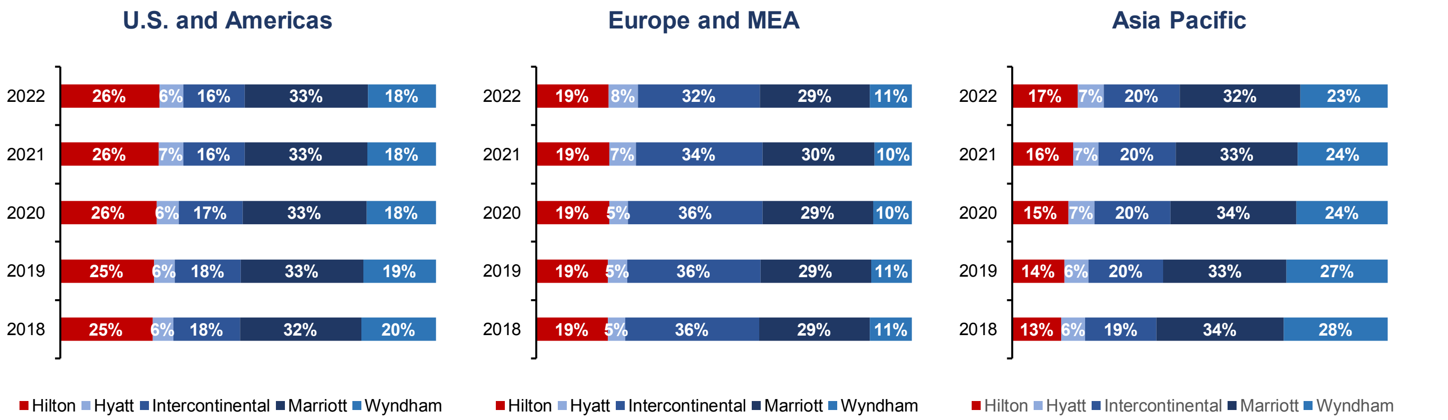
Source: IMF & OECD Data and World Travel & Tourism Council

Appendix 3.2.– Distinct preferences across the industry



Source: PWC’s Data, adapted by authors

Appendix 3.3 – Hilton and Peer’s market shares per region



Appendix 5 – Valuation

Appendix 5.1 – Forecasted and reformulated Income Statement

Income Statement - Hilton ($'Mn)													
Caption	Historical					Forecasted							
	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Operating Activities													
Operating Revenues													
Management & Franchise	2086	2243	1106	1767	2558	3030	3331	3153	3356	3529	3750	3944	4070
Ownership	1484	1422	421	598	1076	1312	1385	1152	1189	1113	1065	1033	912
Other revenues from managed and franchised properties	5238	5686	2707	3344	5037	4600	5058	4788	5096	5359	5693	5988	6179
Other Revenues	98	101	73	79	102	143	155	141	149	153	158	164	164
Total Operating Revenues	**8906**	**9452**	**4307**	**5788**	**8773**	**9085**	**9929**	**9234**	**9790**	**10154**	**10667**	**11128**	**11325**
Operating Expenses													
Owned and Leased Hotels	1332	1254	620	679	999	1184	1250	1040	1073	1005	962	932	823
Depreciation and amortization	325	346	331	188	162	122	129	118	111	105	101	99	97
General and administrative costs	443	441	311	405	382	371	380	332	330	321	316	310	295
Reorganization Costs	0	0	41	0	0	0	0	0	0	0	0	0	0
Impairment Losses	0	0	258	0	0	0	0	0	0	0	0	0	0
Other expenses from managed and franchised properties	5323	5763	3104	3454	5076	4675	5140	4865	5179	5446	5786	6085	6279
Other expenses	51	72	60	45	60	75	79	66	68	64	61	59	52
Total Operating Expenses	**7474**	**7876**	**4725**	**4771**	**6679**	**6427**	**6979**	**6422**	**6761**	**6941**	**7226**	**7485**	**7548**
Total Operating Result Before Taxes (Operating EBIT)	**1432**	**1576**	**-418**	**1017**	**2094**	**2658**	**2951**	**2813**	**3030**	**3213**	**3441**	**3643**	**3777**
Statutory US Taxes (benefit)	-300	-331	88	-214	-440	-558	-620	-591	-636	-675	-723	-765	-793
Tax Adjustments	-73	-68	119	-31	-104	-127	-141	-135	-145	-154	-165	-175	-181
Currency translation adjustment, net of tax	-70	-4	38	-29	-8	-10	-11	-10	-11	-11	-11	-12	-12
Cash flow hedge adjustment	22	-45	-38	31	130	22	25	23	24	25	26	27	28
Operating Result	**1011**	**1128**	**-211**	**774**	**1672**	**1985**	**2204**	**2100**	**2262**	**2399**	**2568**	**2719**	**2819**
Non-Operating Activities													
Non-operating Expenses													
Other non-operating income	28	3	-2	23	50	56	63	71	79	89	100	112	126
Gain (loss) on foreign currency transactions	-11	-2	-27	-7	5	-13	-13	-14	-14	-15	-15	-16	-16
Gain (loss) on sales of assets, net	0	81	0	-7	0	0	0	0	0	0	0	0	0
Loss on investments in unconsolidated affiliates	0	0	0	0	0	-92	0	0	0	0	0	0	0
Loss on debt extinguishments	0	0	-48	-69	0	0	0	0	0	0	0	0	0
Total Non-operating Expenses	**17**	**82**	**-77**	**-60**	**55**	**-49**	**49**	**57**	**65**	**74**	**85**	**96**	**110**
Total Non-operating Result Before Taxes (Non-operating EBIT)	**17**	**82**	**-77**	**-60**	**55**	**-49**	**49**	**57**	**65**	**74**	**85**	**96**	**110**
Statutory US Taxes (benefit)	-4	-17	16	13	-12	10	-10	-12	-14	-16	-18	-20	-23
Tax Adjustments	-10	-29	-109	-4	-9	18	-18	-21	-24	-27	-31	-36	-40
Pension liability adjustment, net of tax	-9	-9	-20	80	-49	-6	-6	-7	-8	-9	-10	-11	-12
Non-operating Result	**-6**	**27**	**-190**	**29**	**-15**	**-26**	**14**	**17**	**19**	**23**	**26**	**30**	**34**
Financing Activities													
Interest Expense	-371	-414	-429	-397	-415	-445	-489	-500	-509	-524	-537	-551	-567
Financing Results Before Taxes	**-371**	**-414**	**-429**	**-397**	**-415**	**-445**	**-489**	**-500**	**-509**	**-524**	**-537**	**-551**	**-567**
Statutory US Taxes (benefit)	78	87	90	84	87	94	103	105	107	110	113	116	119
Financial Result	**-293**	**-327**	**-339**	**-313**	**-328**	**-352**	**-387**	**-395**	**-402**	**-414**	**-424**	**-436**	**-448**
Net loss (income) attributable to noncontrolling interests	-5	-5	5	2	-2	1	1	1	1	1	1	0	0
Total Result	**707**	**823**	**-735**	**491**	**1328**	**1607**	**1833**	**1723**	**1880**	**2008**	**2171**	**2314**	**2405**

Appendix 5.2 – Reformulated Income Statement Assumptions

Income Statement Assumptions										
Caption	Forecasted								Unit	Assumptions
	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F		
Operating Revenues										
Management & Franchise	3030	3331	3153	3356	3529	3750	3944	4070	$Mn	Author Analysis based on forecasted ADR and Occupancy rate
Ownership	1312	1385	1152	1189	1113	1065	1033	912	$Mn	Author Analysis based on forecasted ADR and Occupancy rate
Other revenues from managed and franchised	152%	152%	152%	152%	152%	152%	152%	152%	% Management & Franchise Revenues	Average 2018-2022 of 152%
Other Revenues	3%	3%	3%	3%	3%	3%	3%	3%	% Management, Franchise & Ownership Revenues	Average 2018-2022 of 3%
Operating Expenses										
Owned and Leased Hotels	90%	90%	90%	90%	90%	90%	90%	90%	% Ownership Revenues	Average 2018, 2019, 2022 of 90%. Year 2020 and 2021 were not considered due
Depreciation and amortization	122	129	118	111	105	101	99	97	$Mn	Depreciation on PP&E + Amortization of Other Intangible Assets + Amortization of
General and administrative costs	4.1%	3.8%	3.6%	3.4%	3.2%	3.0%	2.8%	2.6%	% Operating Revenues	Median of growth ratio between General&Administrative and Operating Revenues. Corresponding to (2019, 2021
Reorganization Costs	0	0	0	0	0	0	0	0	$Mn	Constant at 0 $M
Impairment Losses	0	0	0	0	0	0	0	0	$Mn	Constant at 0 $M
Other expenses from management & franchise	102%	102%	102%	102%	102%	102%	102%	102%	% Management & Franchise Revenues	Median 2018-2022 of 102%
Other expenses	18%	18%	18%	18%	18%	18%	18%	18%	% Packages, Food & Beverage and Other anciliary revenues	Average 2018, 2019, 2022 of 18%. The years 2020 and 2021 were omitted from the calculation due to the pandemic effect.
Non-Operating Expenses										
Other non-operating income	56	63	71	79	89	100	112	126	$Mn	Growing at CAGR 2018-2022, adjusted to 2023 Q3
Gain (loss) on foreign currency transactions	-13	-13	-14	-14	-15	-15	-16	-16	$Mn	Growing at CAGR 2018-2023, adjusted to 2023 Q3
Gain (loss) on sales of assets, net	0	0	0	0	0	0	0	0	$Mn	Constant at 0 $M
Loss on investments in unconsolidated affiliate	-92	0	0	0	0	0	0	0	$Mn	Constant at 0 $M, adjusted to 2023 Q3
Non-Operating Expenses										
Interest Expense	5%	5%	5%	5%	5%	5%	5%	5%	% Prior Year Total Debt & Debt Equivelents	Average 2018-2022 of 5%
Loss on debt extinguishments	0	0	0	0	0	0	0	0	$Mn	Constant at 0 $M
Other Comprehensive Income										
Currency translation adjustment, net of tax	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	% Operating Revenues	Average 2018-2022 of -0.1%
Pension liability adjustment, net of tax	-6.72%	-6.72%	-6.72%	-6.72%	-6.72%	-6.72%	-6.72%	-6.72%	% Pension Obligations	Median 2018-2022 of -6.72%
Cash flow hedge adjustment	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	% Operating Revenues	Median 2018-2022 of 0.25%
Taxes										
Statutory US Taxes (benefit)	21%	21%	21%	21%	21%	21%	21%	21%	%	Constant at 21%
Operating Tax Adjustements	5%	5%	5%	5%	5%	5%	5%	5%	% Operating EBIT	Average 2018,2019,2022 at 5%. Year 2020 and 2021 were not considered due
Non-Operating Tax Adjustement	37%	37%	37%	37%	37%	37%	37%	37%	% Non-operating EBIT	Average 2018,2019,2022 at 5%. Year 2020 and 2021 were not considered due
Non-Controlling Interests										
Net loss (income) attributable to noncontrolling	-50%	-50%	-50%	-50%	-50%	-50%	-50%	-50%	% Non-Controlling Interests	Median 2018-2022 of -50%
EPS & DPS										
Basic EPS	6	7	7	8	9	10	11	12	$	Net Income / Basic shares outsanding
Diluted EPS	6	7	7	7	8	9	10	11	$	Net Income / Diluted shares outsanding
Cash dividends declared per share	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	$	Constant at pre-pandemic levels (2018-2022), in accordance with 2023 3Q

Discrimination of depreciation and amortization

Depreciation and amortization	**122**	**129**	**118**	**111**	**105**	**101**	**99**	**97**	$Mn	Depreciation on PP&E + Amortization of Other Intangible Assets + Amortization of Management & Franchise
Depreciation on PP&E	46	44	41	38	35	32	30	27	% Prior net PPE	Average 2018-2022 of 15% of Prior Net PP&E
Amortization	76	84	78	73	70	69	69	70	$M	Sum of Amortization of Other Intagible Assets & Amortization of Management & Franchise Contracts
Amortization of Other Intangible Assets	42	59	58	59	60	61	63	65	$M	Average 2018-2022 of 26% of Prior Other intangible assets
Amortization of Management & Franchise recorded at merger	34	25	19	14	11	8	6	5	$M	Average growth 2018-2022 of -25%

Appendix 5.3 – Forecasted and reformulated Balance Sheet

Balance Sheet - Hilton ($'Mn)													
Caption	Historical					Forecasted							
	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Total Funds Invested: Uses													
Net Working Capital													
Operating Current Assets													
Operating Cash	178	189	86	116	175	182	199	185	196	203	213	223	226
Accounts Receivables	1150	1261	771	1068	1327	1253	1370	1274	1350	1401	1471	1535	1562
Prepaid Expenses	160	130	70	89	105	112	122	112	118	121	126	130	131
Other Current Assets	189	72	98	202	152	189	206	192	203	211	221	231	235
Operating Current Assets	**1677**	**1652**	**1025**	**1475**	**1759**	**1735**	**1896**	**1762**	**1867**	**1935**	**2032**	**2119**	**2155**
Operating Current Liabilities													
Accounts payable	283	303	224	274	368	320	349	322	341	352	368	383	387
Accrued expenses and other	1266	1400	1078	1294	1422	1370	1497	1392	1476	1531	1608	1678	1708
Current portion of deferred revenues	350	332	370	350	433	375	410	381	404	419	440	459	467
Current portion of liability for guest loyalty program	700	799	703	1047	1110	1110	1110	1110	1110	1110	1110	1110	1110
Operating Current Liabilities	**2599**	**2834**	**2375**	**2965**	**3333**	**3174**	**3365**	**3206**	**3331**	**3412**	**3527**	**3630**	**3672**
Net Operating Working Capital	**-922**	**-1182**	**-1350**	**-1490**	**-1574**	**-1439**	**-1470**	**-1444**	**-1464**	**-1476**	**-1495**	**-1511**	**-1517**
Other Operating Assets (excluding goodwill)													
Property and equipment, net	367	380	346	305	280	271	251	233	215	199	183	168	155
Brands	4869	4877	4904	4883	4840	4833	4826	4819	4811	4804	4797	4790	4783
Management and franchise contracts, net	872	780	653	758	887	1044	1228	1408	1605	1817	2045	2288	2541
Other Intangible Assets, net	415	421	266	194	161	224	222	223	227	232	239	248	258
Operating lease right of use assets	0	867	772	694	662	593	533	477	423	373	326	282	241
Deferred income tax assets	90	100	194	213	204	198	220	210	226	240	257	272	282
Other Operating Assets (excluding goodwill)	**6613**	**7425**	**7135**	**7047**	**7034**	**7165**	**7281**	**7369**	**7508**	**7666**	**7848**	**8048**	**8259**
Other Operating Liabilities													
Deferred revenues	826	827	1004	896	986	908	908	908	908	908	908	908	908
Liability for guest loyalty program	969	1060	1766	1317	1285	1060	1060	1060	1060	1060	1060	1060	1060
Deferred income tax liabilities	898	795	649	700	735	1313	1458	1390	1497	1588	1700	1801	1867
Other Operating Liabilities	**2693**	**2682**	**3419**	**2913**	**3006**	**3281**	**3426**	**3358**	**3465**	**3556**	**3668**	**3768**	**3834**
Operating Invested Capital (excluding goodwill)	**2998**	**3561**	**2366**	**2644**	**2454**	**2444**	**2386**	**2568**	**2579**	**2633**	**2685**	**2769**	**2908**
Goodwill	5160	5159	5095	5071	5032	5032	5032	5032	5032	5032	5032	5032	5032
Operating Invested Capital (including goodwill)	**8158**	**8720**	**7461**	**7715**	**7486**	**7476**	**7418**	**7600**	**7611**	**7665**	**7717**	**7801**	**7940**
Non-operating Assets													
Other Assets	239	280	323	452	576	737	943	1206	1543	1974	2525	3230	4132
Non-Operating Assets	**239**	**280**	**323**	**452**	**576**	**737**	**943**	**1206**	**1543**	**1974**	**2525**	**3230**	**4132**
Non-operating Liabilities													
Other Liabilities	863	883	989	746	692	611	539	476	420	370	327	288	254
Non-Operating Liabilities	**863**	**883**	**989**	**746**	**692**	**611**	**539**	**476**	**420**	**370**	**327**	**288**	**254**
Non-Operating Invested Capital	**-624**	**-603**	**-666**	**-294**	**-116**	**126**	**404**	**730**	**1123**	**1603**	**2198**	**2942**	**3878**
Total Invested Capital	**7534**	**8117**	**6795**	**7421**	**7370**	**7603**	**7822**	**8330**	**8734**	**9269**	**9916**	**10743**	**11818**
Total Funds Invested: Sources													
Net Financial Debts	**6976**	**8589**	**8281**	**8240**	**8468**	**9304**	**9512**	**9685**	**9957**	**10205**	**10483**	**10787**	**11143**
Non-controlling interests	7	10	4	2	4	-2	-2	-2	-2	-2	-1	-1	0
Net Financial Assets	**6983**	**8599**	**8285**	**8242**	**8472**	**9302**	**9509**	**9683**	**9955**	**10203**	**10481**	**10786**	**11143**
Equity	**551**	**-482**	**-1490**	**-821**	**-1102**	**-1700**	**-1688**	**-1353**	**-1221**	**-934**	**-566**	**-43**	**675**
Total Invested Capital	**7534**	**8117**	**6795**	**7421**	**7370**	**7603**	**7822**	**8330**	**8734**	**9269**	**9916**	**10743**	**11818**

Appendix 5.4 – Forecasted Balance Sheet Assumptions

Balance Sheet Assumptions										
Caption	Forecasted								Unit	Assumptions
	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F		
Operating Current Assets										
Operating Cash	2%	2%	2%	2%	2%	2%	2%	2%	% Operating Revenues	Constant at 2%
Accounts Receivable	50	50	50	50	50	50	50	50	DSO	Average 2018,2019,2022 at 50 days. Years 2020 and 2021 not considered due to pandemic effects
Pre-paid expenses	2%	2%	2%	2%	2%	2%	2%	2%	% Operating Expenses	Average 2018-22 of 2%
Other Current Assets	2%	2%	2%	2%	2%	2%	2%	2%	% Operating Revenues	Average 2018-22 of 2%
Operating Current Liabilities										
Accounts payable	20	20	20	20	20	20	20	20	DPO	Average 2018-22 at 20 days
Accrued expenses and other	15%	15%	15%	15%	15%	15%	15%	15%	% Operating Revenues	Average 2018,2019,2022 of 15%. Years 2020 and 2021 not considered due to pandemic effects
Current portion of deferred revenues	4%	4%	4%	4%	4%	4%	4%	4%	% Operating Revenues	Average 2018,2019,2022 of 4%. Years 2020 and 2021 not considered due to pandemic effects
Current portion of liability for guest loyalty program	1110	1110	1110	1110	1110	1110	1110	1110	$M	Constant at FY2022 value
Other Operating Assets										
Property & Equipment, net	271	251	233	215	199	183	168	155	$M	Regression - PP&E and Growth of Owned/ Leased Rooms
Brands	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	%	Growing at average FY2018-22 of -0.1%
Management and franchise contracts, net	1044	1228	1408	1605	1817	2045	2288	2541	$M	Mng. And Franchise (t-1) + Contract Acquisition Costs (t) - Amortization Contract Aquisition Costs (t) - Amortization of International Management Contracts record as a Merger (t)
Other intangible assets, net	224	222	223	227	232	239	248	258	$M	Other Intangibles = Capitalized Software Costs + Leases + Hilton Honors
Operating lease right of use assets	593	533	477	423	373	326	282	241	$M	Average 2018-2022 of -20%
Deferred income tax assets	7%	7%	7%	7%	7%	7%	7%	7%	% Operating EBIT	Average 2018, 2019, 2022 of 7%. Years 2020 and 2021 not considered due to pandemic effects
Other Operating Liabilities										
Deferred revenues	908	908	908	908	908	908	908	908	$M	Average 2018-22 of $908Mn
Liability for guest loyalty program	1060	1060	1060	1060	1060	1060	1060	1060	$M	Constant at FY2019 value
Deferred income tax liabilities	49%	49%	49%	49%	49%	49%	49%	49%	% Operating EBIT	Average 2018,2019,2021 of 49%. Years 2020 and 2021 not considered due to pandemic effects
Goodwill										
Goodwill	5032	5032	5032	5032	5032	5032	5032	5032	$M	Constant at FY2022 value
Non-operating assets										
Other non-current assets	28%	28%	28%	28%	28%	28%	28%	28%	%	Growing at average growth FY2018-22 of 28%
Non-operating liabilities										
Other non-current Liabilities	-12%	-12%	-12%	-12%	-12%	-12%	-12%	-12%	%	Growing at average growth FY2018-22 of -12%
Net Financial Debts										
Net Financial Debt	19%	19%	19%	19%	19%	19%	19%	19%	% Enterprise Value	Constant capitalization struture in accordance with Hilton historical leverage and industry median
Non-controlling Interests										
Non-Controlling Interests	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	% Prior-year Equity	Average 2018-22 of -0.3%

Discrimination of Other Operating Assets – Management and Franchise contracts & Other Intangible Assets

Management and franchise contracts, net	872	780	653	758	887	1044	1228	1408	1605	1817	2045	2288	2541	$Mn	Mng. And Franchise (t-1) + Contract Acquisition Costs (t) - Amortization Contract Aquisition Costs (t) - Amortization of International Management Contracts record as a Merger (t)
Contract Acquisition Costs (+)	194	139	66	184	212	242	266	252	269	283	300	316	327	% Management & Franchise Fees	Average 2018-22 of 9% of Base and other management fees & Contract acquisition costs
Amortization of Contract Acquisition Costs (-)	27	29	29	32	38	52	57	54	57	60	64	67	69	% Management & Franchise Fees	Average 2018-22 of 2% of Management & Franchise Fees
Amortization of International management contracts record as a Merger (-)	204	202	164	47	45	34	25	19	14	11	8	6	5	$M	Historical average growth of -25% (2018-2022)
Other intangible assets, net	415	421	265	194	160	224	222	223	227	232	239	248	258	$Mn	Other Intangibles = Capitalized Software Costs + Leases + Hilton Honors
Capitalized Softwares Costs	182	226	144	101	100	178	187	196	206	216	227	238	251	$M	Average 2018-2022 of 0.02% of Total Rooms
Leases	127	114	62	55	44	35	28	22	18	14	11	9	7	$M	Historical average growth of -20% (2018-2022)
Hilton Honors	102	81	60	38	17	12	8	6	4	3	2	1	1	$M	Historical average growth of -31% (2018-2022)
Other	4	0	0	0	0	0	0	0	0	0	0	0	0	$M	Constant at $0

Appendix 5.5 – Forecasted Cash Flow Map

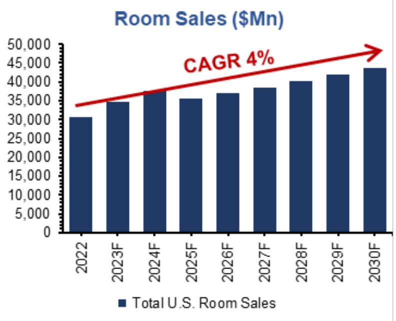
Cash Flow Statement - Hilton ($'Mn)													
Caption	Historical					Forecasted							
	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
NOPLAT	**1123**	**1038**	**-153**	**950**	**1672**	**1972**	**2190**	**2087**	**2248**	**2384**	**2553**	**2704**	**2803**
Depreciation and amortization	325	346	331	188	162	122	129	118	111	105	101	99	97
Gross Cash Flow	**1448**	**1384**	**178**	**1138**	**1834**	**2094**	**2318**	**2206**	**2359**	**2490**	**2655**	**2803**	**2900**
Net CAPEX	65	73	23	12	21	37	24	22	20	18	17	15	14
Change in Net Working Capital	-235	-4	-168	-140	-83	135	-31	26	-20	-13	-18	-16	-6
Change in other operating assets & liabilities, net	-753	896	-711	426	-177	-357	-190	-6	-151	-134	-150	-136	-105
Increase in goodwill	-30	-1	-64	-24	-39	0	0	0	0	0	0	0	0
Investment in Intangibles	213	200	-8	168	212	297	267	258	274	288	304	320	333
Operating Free Cash Flow	**2187**	**476**	**1106**	**696**	**1901**	**1982**	**2249**	**1905**	**2237**	**2330**	**2501**	**2620**	**2665**
Non-Operating EBIT	14	80	-77	-60	55	-49	49	57	65	74	85	96	110
Non-Operating Taxes	-14	-46	-93	9	-21	28	-29	-33	-38	-43	-49	-56	-63
Other Comprehensive Income	-57	-58	-20	82	73	7	7	6	6	5	5	5	4
Non-PLAT	**-57**	**-24**	**-190**	**31**	**107**	**-14**	**28**	**30**	**33**	**37**	**41**	**45**	**50**
Change in non-operating assets & liabilities, net	412	21	-63	372	178	242	278	327	393	480	595	744	936
Non-operating Free Cash Flow	**-469**	**-45**	**-127**	**-341**	**-71**	**-256**	**-249**	**-297**	**-360**	**-444**	**-554**	**-698**	**-886**
Free Cash Flow to the Firm	**1719**	**431**	**979**	**355**	**1830**	**1726**	**1999**	**1608**	**1877**	**1887**	**1947**	**1922**	**1778**
Interest	-371	-414	-429	-397	-415	-445	-489	-500	-509	-524	-537	-551	-567
Tax shield	78	87	90	84	87	94	103	105	107	110	113	116	119
Change in Net Financial Debt	861	1613	-308	-41	229	836	208	174	272	248	278	304	356
Transactions with shareholders	-2287	-1717	-332	0	-1731	-2210	-1820	-1387	-1747	-1721	-1801	-1790	-1686
Financing Free Cash Flow	**1719**	**431**	**979**	**355**	**1830**	**1726**	**1999**	**1608**	**1877**	**1887**	**1947**	**1922**	**1778**

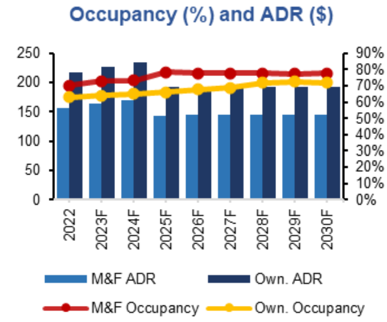
Appendix 5.6 –Fundamental reasoning of Revenue assumptions

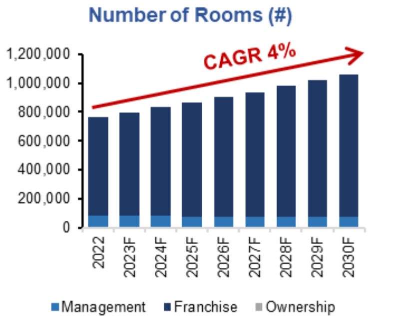
Rationale of Authors Assumptions	
Variable	**Rationale**
Hilton's financial assumptions	
Income Statement	
US Revenues	
# Rooms	Growing at historical CAGR 2018-22, except owned rooms, projected to remain constant at 0.
Occupancy Rate	Projections for 2023-24F based on PwC RevPAR growth projections (*PwC - U.S. Hospitality Directions: May 2023*). In 2025-30F period occupancy rate is expected to be consistent with revenue drivers: (i) population growth; (ii) Real GDP growth; (iii) Inflation Growth; (iv) International tourist arrivals growth; (v) Consumer spending growth.
ADR	Projections for 2023-24F based on PwC ADR growth forecasts (*PwC - U.S. Hospitality Directions: May 202* 3). In 2025-30F period ADR is expected to be consistent with revenue drivers
Americas Revenues	
# Rooms	Growing at historical CAGR 2018-22.
Occupancy Rate	Projections based on average occupancy rate as % of the US occupancy rates prior the COVID-19 pandemic.
ADR	Projections based on average ADR as % of the US ADR 2018-22
Europe Revenues	
# Rooms	Growing at historical CAGR 2018-22.
Occupancy Rate	2023F values equal to the Hilton's occupancy rate of the 9-months ended September 30. The 2024F is projected based on the growth rate projected to 2025F. In 2025F, occupancy rates return to pre-pandemic levels of 2018, and in 2026-30F period occupancy rate is expected to be consistent with revenue drivers.
ADR	Projections of 2023F based on STR ADR growth projections (*STR - Healthy outlook for Europe hotels, May 2023). The 2024F is projected based on the growth rate projected to 2025F.* In 2025-30F period ADR is expected to be consistent with revenue drivers.
MEA Revenues	
# Rooms	Management & Franchise rooms projected to increase gradually until 2027F, reaching 160% of 2022YE rooms, according to Hilton's expansion plans. In 2028-30F, these rooms are expected to increase at the same rate as 2027F. The ownership rooms expected to growth at 2018-22 GAGR.
Occupancy Rate	Occupancy rates are expected to return to pre-pandemic values 2024F and subsequently continue its growth trajectory above the growth of the other regions, i.e., 1% above the US Growth occupancy. The 2023F is projected based on the growth rate projected to 2025F.
ADR	Projected to be 35% higher than US projected ADR, according to values recorded in 2018, year not affected by the pandemic. Reasons include: (i) predominance of luxury and premium segments in this region; and, (ii) still limited supply meeting the rising demand.
Asia & Pacific Revenues	
# Rooms	Growing at historical CAGR 2018-22.
Occupancy Rate	Occupancy levels are expected to reach 95% of the 2019YE levels. In 2024F, occupancy rates are antecipate to return to the 2019YE levels. In 2028-30F occupancy rates are expected to be consistent with revenue drivers and gradually increase over time until that period.
ADR	2023F ADR is expected to reach 2019YE levels and in 2024F pre-pandemic levels of 2018YE. In 2025-30F period, ADR is expected to be consistent with revenue drivers.

Appendix 5.7. – Revenues Assumptions in Figures

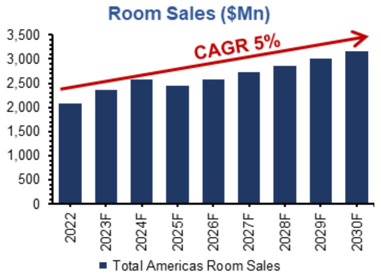
U.S. FY2022-30

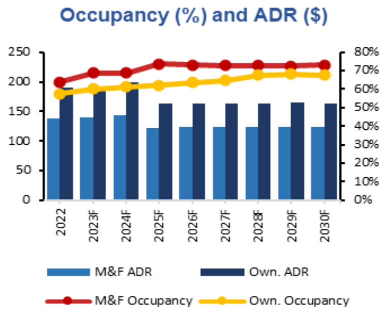


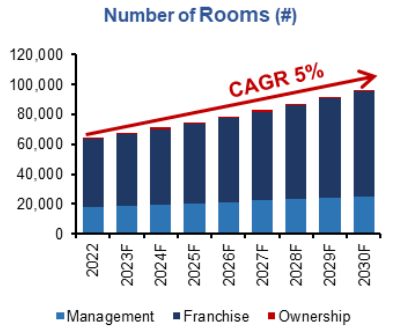




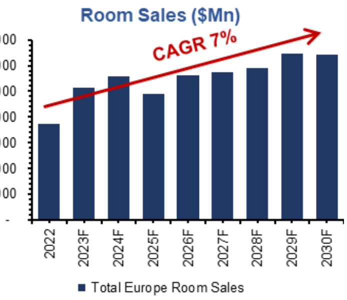
Americas FY2022-30F

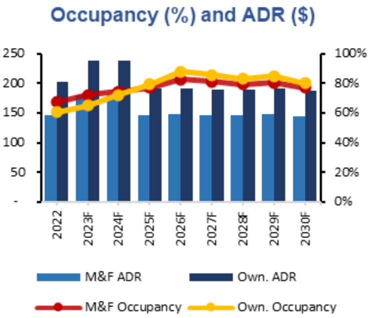


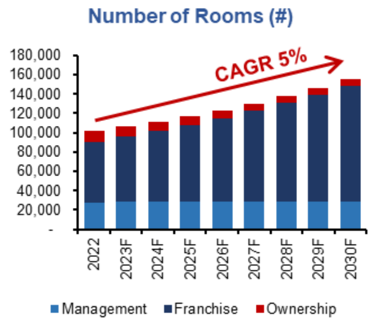




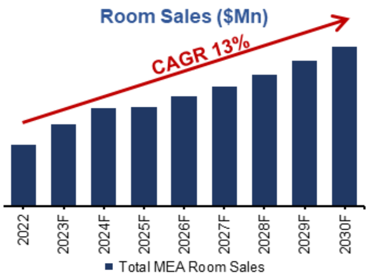
Europe FY2022-30F

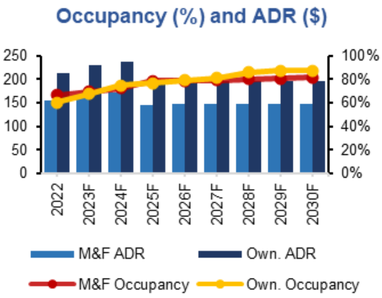


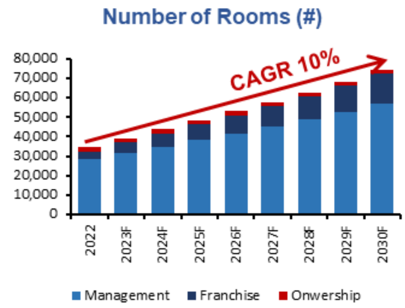




MEA FY2022-30F







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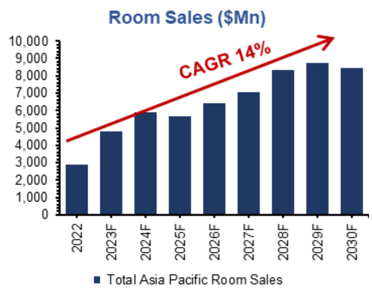
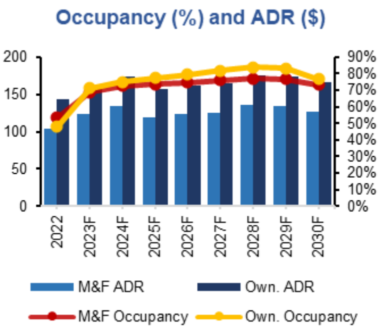
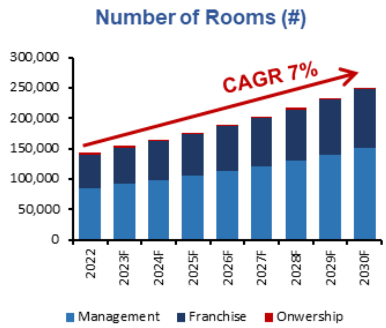






Appendix 5.8 – Free Cash Flow to the Firm Valuation

FCFC (WACC)				
Forecast Year	**Free Cash Flow**	**WACC**	**Discount Factor**	**Present Value**
(+) Operating Activities Value				
2025F	1608	5.6%	0.95	1523
2026F	1877	5.6%	0.90	1685
2027F	1887	5.6%	0.85	1604
2028F	1947	5.6%	0.81	1568
2029F	1922	5.6%	0.76	1466
2030F	1778	5.6%	0.72	1285
Terminal Value	56666	5.6%	0.68	38794
Operating Value				**47925**

(+) Non Operating Assets	
Non-Core Value	943
Enterprise Value	**48868**

(-) Net Debt (including non-controlling interests)	
Net Debt	-9509
Equity Value	**39359**

Shares Outstanding	256
Price Target ($/share)	**153**

Appendix 5.9 – WACC Breakdown

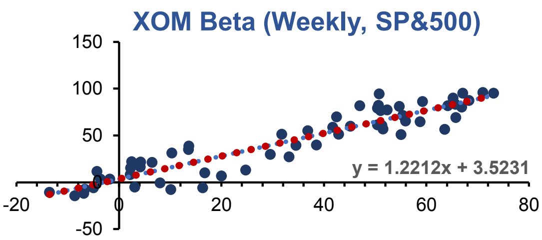
WACC Determination	
Cost of Debt (Rd)	2.6%
Cost of Equity (Re)	6.2%
Debt Weight	18.7%
Equity Weight	81.3%
Debt to Equity	23.0%
WACC	**5.6%**

Target Weights						
Description	Years					
	2018	**2019**	**2020**	**2021**	**2022**	**Terminal**
Debt Weight	33%	28%	27%	19%	25%	**23%**
Equity to Enterprise Value	75%	78%	79%	84%	80%	**81%**
Debt to Enterprise Value	25%	22%	21%	16%	20%	**19%**

Cost of Equity

Cost of Equity estimation	
Us 10-year Treasury Bond	1.9%
Equity Risk Premium	3.8%
Equity Beta	1.14
Cost of Equity	**6.2%**

Source: Bloomberg, Damodaram & Authors analysis



Source: Authors Analysis

Company	**Levered beta**	**Unlevered Beta**	**Relevered Beta**	**Blume Adjustement**
Hilton	1.22	1.00	1.20	**1.14**

Peer group selected			**Industry Relevered Beta**	**Blume Adjustememt**
Choice Hotels	1.12	0.95	1.18	1.12
Hyatt Hotels Corp	1.13	0.93		
Intercontinental Hotels	1.21	1.04		
Marriott International	1.09	0.90		
Wyndham Hotels & Resorts	1.34	1.05		

Source: Bloomberg and Author Analysis

Cost of Debt

Cost of Debt estimation				
Indicator	2021	2022	2023	2030(F)
Cost of Debt	4.29%	6.30%	6.30%	3.34%
Marginal Tax Rate	21%	21%	21%	21%
After-tax Cost of Debt	**3.39%**	**4.98%**	**4.97%**	**2.64%**

Company Default Spread estimation				
Indicator	CDS 2021	CDS 2022	CDS 2023	CDS 2030 (F)
Risk-free rate (U.S. Treasury 10Y)	1.51%	3.88%	4.29%	1.92%
Country Default Spread (US)	0.00%	0.00%	0.00%	0.00%
Company Default Spread	2.78%	2.42%	1.42%	1.42%
Cost of Debt (DRM)	**4.29%**	**6.30%**	**6.30%**	**3.34%**

Source: Bloomberg and Damodaran

Default Spread Table				
Rating Moody's	**Rating Fitch & S&P**	**Default Spread**	**Interest Coverage**	
			>	**<**
D2	D	20.00%	100000.00	0.20
C2	C	17.50%	0.20	0.65
Ca2	CC	15.78%	0.65	0.80
Caa	CCC	11.57%	0.80	1.25
B3	B-	7.37%	1.25	1.50
B2	B	5.26%	1.50	1.75
B1	B+	4.55%	1.75	2.00
Ba2	BB	3.13%	2.00	2.25
Ba1	BB+	2.42%	2.25	2.50
Baa2	BBB	2.00%	2.50	3.00
A3	A-	1.62%	3.00	4.25
A2	A	1.42%	4.25	5.50
A1	A+	1.23%	5.50	6.50
Aa2	AA	0.85%	6.50	8.50
Aaa	AAA	0.69%	8.50	100000.00

Source: Damodaran

Appendix 5.10 – Top 5 Peers – SARD approach

Sard approach was conducted over the main public competitors reported directly by Hilton worldwide.

SARD peers determination approach						
Entity Details	Rankings					**SARD Result**
#	ROIC	Market Cap	EBIT margin	Net Debt / Invested Capital	EPS Next Year Growth	
Potential Peers						
Accor SA	4%	8890	12%	17%	2%	32
Choice Hotels	22%	5627	34%	73%	7%	19
Hongkong and Shanghai Hotels	0%	1268	-1%	0.3%	0%	40
Hyatt Hotels Corp	6%	11410	10%	40%	3%	29
Intercontinental Hotels	36%	12234	17%	594%	4%	14
Marriott International	22%	59525	17%	95%	10%	12
Wyndham Hotels & Resorts	10%	6418	37%	64%	4%	21

Source *: Authors analysis & Bloomberg*

Appendix 5.11 – Multiple based Valuation (Trailing Twelve Months and 2024 Forecasted)

Peer Group Multiples - Current TTM MBV				
Company name	Price Multiples	Enterpise Value Multiples		
	P/S	EV/Sales	EV/EBITDA	EV/EBIT
Peer group selected				
Choice Hotels	3.7	4.9	14.2	16.8
Hyatt Hotels Corp	1.8	2.1	16.3	35.5
Intercontinental Hotels	3.1	3.3	14.4	15.4
Marriott International	2.7	3.0	15.8	16.8
Wyndham Hotels & Resorts	4.7	5.6	13.7	15.8
Hilton Multiples				
Hilton	4.4	4.7	18.3	19.4
Multiples				
Maximum	4.7	5.6	18.3	35.5
75th Percentile	4.5	5.1	16.8	23.4
Median	3.4	4.0	15.1	16.8
Average	3.2	3.8	14.9	20.1
25th Percentile	2.5	2.8	14.1	15.7
Minimum	1.8	2.1	13.7	15.4
Valuation Price Target ($/share) - Forecast 2024				
Maximum	159	158	128	265
75th Percentile	153	141	**114**	163
Median	116	104	99	108
Average	109	96	98	135
25th Percentile	84	61	91	99
Minimum	62	38	88	96

Peer Group Multiples - Forecast 2024F MBV				
Company name	Price Multiples	Enterpise Value Multiples		
	P/S	EV/Sales	EV/EBITDA	EV/EBIT
Peer group selected				
Choice Hotels	3.6	4.5	12.6	14.3
Hyatt Hotels Corp	1.7	2.1	12.9	24.6
Intercontinental Hotels	5.1	5.9	12.8	13.9
Marriott International	2.4	2.8	14.6	16.9
Wyndham Hotels & Resorts	4.4	5.8	12.4	14.8
Hilton Multiples				
Hilton	4.0	4.7	15.8	18.9
Multiples				
Maximum	5.1	5.9	15.8	24.6
75th Percentile	4.6	5.8	14.9	20.3
Median	3.8	4.6	12.8	15.9
Average	3.4	4.2	13.1	16.9
25th Percentile	2.2	2.6	12.6	14.2
Minimum	1.7	2.1	12.4	13.9
Valuation Price Target ($/share) - Forecast 2024				
Maximum	175	170	106	173
75th Percentile	156	166	**98**	137
Median	129	125	80	100
Average	117	112	82	109
25th Percentile	75	57	78	86
Minimum	58	38	76	83

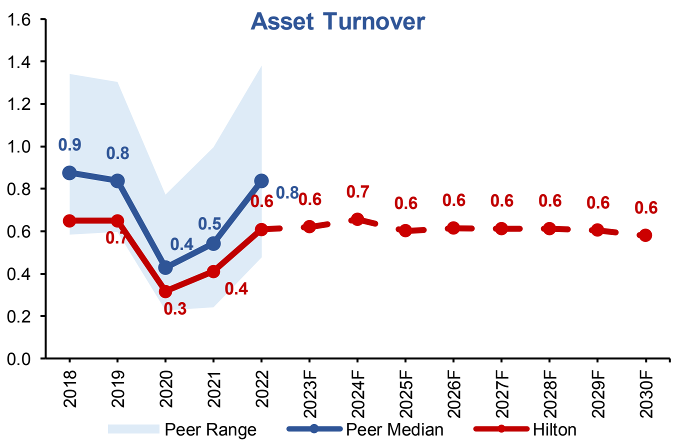
Source: Authors Analysis & Bloomberg TTM

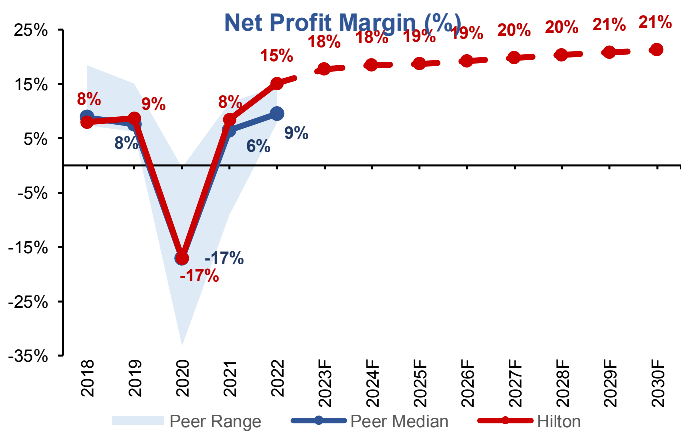
Appendix 6 – Financial Analysis

Appendix 6.1 – Hilton projected key financial ratios

Projected Financial Ratios - Hilton													
Key Financial Ratios	Historical					Forecast							
	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Liquidity Ratio													
Current Ratio (%)	65%	58%	43%	50%	53%	55%	56%	55%	56%	57%	58%	58%	59%
Leverage Ratio													
Equity Multiplier (x)	2484%	-3012%	-911%	-1711%	-1307%	-863%	-898%	-1136%	-1307%	-1777%	-3082%	-42806%	2901%
Debt-to-book Equity	1322%	-1873%	-769%	-1174%	-869%								
Debt-to-market Equity	34%	29%	37%	22%	28%								
Efficiency Ratios													
Total Assets Turnover (x)	0.65	0.65	0.32	0.41	0.61	0.62	0.66	0.60	0.61	0.61	0.61	0.60	0.58
Fixed Assets Turnover (x)	24	25	12	19	31	33	39	40	46	51	58	66	73
Profitability Ratios													
Gross Profit Margin (%)	25%	25%	12%	28%	30%	35%	35%	35%	35%	36%	36%	36%	37%
EBITDA Margin (%)	20%	20%	-2%	21%	26%	31%	31%	32%	32%	33%	33%	34%	34%
EBIT Margin (%)	16%	18%	-11%	17%	24%	29%	30%	31%	32%	32%	33%	34%	34%
Net Profit Margin (%)	8%	9%	-17%	8%	15%	18%	18%	19%	19%	20%	20%	21%	21%
Operating Margin (%)	11%	12%	-5%	13%	19%	22%	22%	23%	23%	24%	24%	24%	25%
ROA (%)	5%	6%	-5%	3%	9%	11%	12%	11%	12%	12%	12%	13%	12%
Return on PP&E (%)	193%	217%	-212%	161%	474%	592%	729%	740%	874%	1011%	1186%	1374%	1555%
ROIC (%)	15%	13%	-2%	13%	23%	26%	28%	25%	26%	26%	26%	25%	24%
ROCE (%)	13%	14%	-4%	9%	19%	23%	25%	24%	25%	25%	25%	25%	24%
ROE(%)	128%	-171%	49%	-60%	-121%	-95%	-109%	-127%	-154%	-215%	-384%	-5375%	356%
ROME (%)	3%	3%	-2%	1%	4%								
RONIC (%)	1%	36%	163%	232%	-2370%	198%	179%	-26%	56%	36%	37%	26%	14%
Payout Ratio (%)	24%	20%	-6%	0%	10%	10%	8%	9%	8%	7%	6%	6%	5%
Solvency Ratios													
Net Debt to Shareholders Equity	1266%	-1782%	-556%	-1004%	-768%	-547%	-564%	-716%	-816%	-1092%	-1853%	-25054%	1651%
Net Debt to EBIT (x)	4.81	5.18	-16.73	8.61	3.94	3.57	3.17	3.38	3.22	3.10	2.97	2.88	2.87
Net Debt to EBITDA (x)	3.97	4.47	-95.19	6.84	3.75	3.35	3.09	3.30	3.17	3.07	2.96	2.88	2.88
Interest Coverage (x)	3.91	4.00	-1.15	2.41	5.18	5.86	6.13	5.74	6.08	6.28	6.57	6.78	6.85
Cash Flow Ratios													
Operating CF (x)	0.8	0.2	0.5	0.2	0.6	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.7

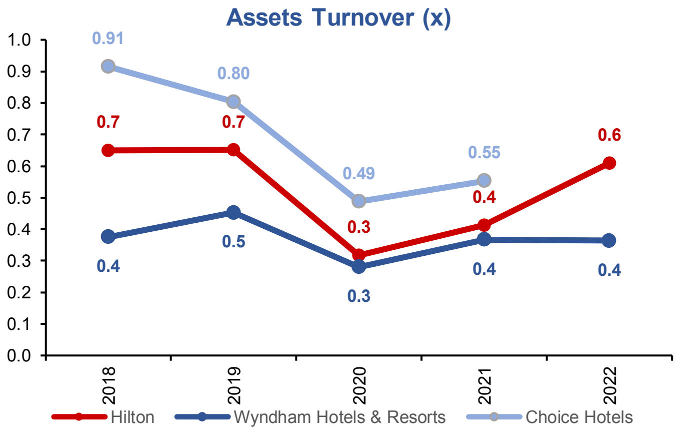
Appendix 6.2 – Hilton vs Peers Financial Analysis

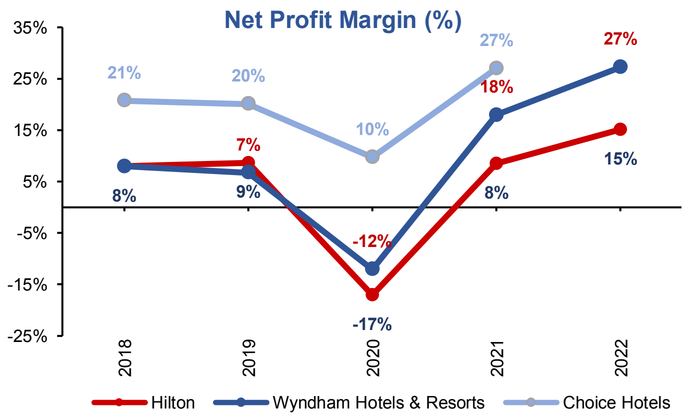


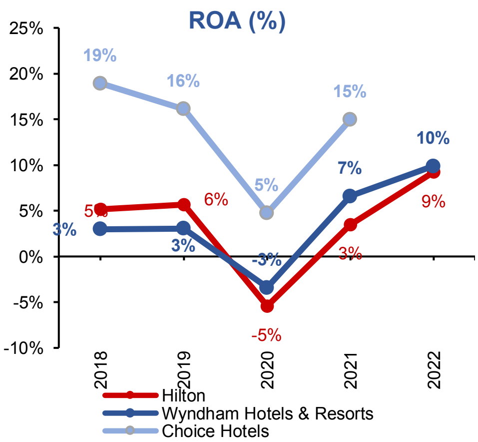


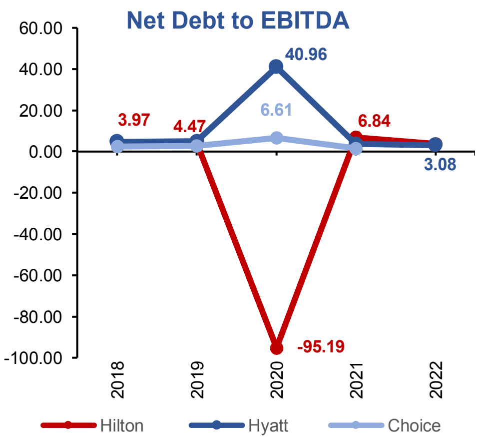
Source: Companies Data and Author analysis

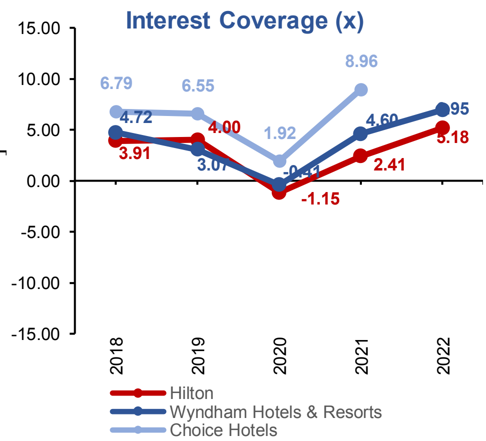
Appendix 6.3 – Hilton vs Franchisors Analysis











Source: Companies Data and Author analysis

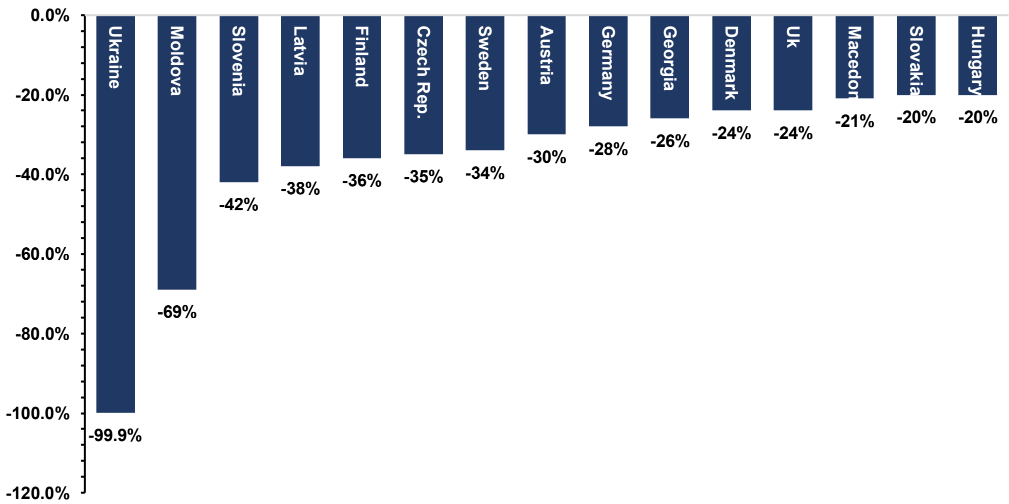
Appendix 7 – Investments Risks

Appendix 7.1 – Historical market events and impacts in hospitality industry

	S&L Crisis	Nine Eleven	Great Financial Crisis	Health Crisis
Market Event	S&L Crisis / Gulf War (Aug.1990)	Terrorist Attacks (Sep.2001)	Lehman Bank´s Bankruptcy (Sep.2008)	Covid-19 Pandemic (Mar.2020)
Economic Conditions	i) Deceleration of GDP growth; ii) Recession; iii) Peaking savings and loan crisis	i)Bursting of dot-com bubble; ii)Deceleration of GDP growth; iii) Recession;	i)Deceleration of GDP growth; ii) Recession	i)Deceleration of GDP growth; ii) Inflation Peak
Prior Industry Conditions	i)Flat RevPAR prior to onset of the crisis; ii) "Non-economic" hotel development; iii) Significant lodging oversupply	i) RevPAR declines prior to the terrorist attacks; ii)Above-average quarterly supply growth;	i) RevPAR declines prior to the onset of the financial crisis; ii)Above-average quarterly supply growth; iii) Previously decelerating performance	i) RevPAR declines during two consective years; ii) Restrictions led to abrupt decline in occupancy rates
Recovery & Key Impact	i)Five quarters to recover to pre-market event RevPAR levels	i) 10 quarters to recover to pre-market RevPAR levels; ii) Subsequent US intervention in Iraq significantly prolonged the recovery	i)17 quarters to recover to pre-market event RevPAR levels; ii)Lenders amended and extended loans instead of foreclosing; iii) Accelerated pace of sector;	i) Full recover expected in 2024

Source: PWC and Author analysis

Appendix 7.2 – European Countries with largest decline in number of flights - Feb-May 2022 (% Change Vs. 2019)



Appendix 7.3 – Minor risks description and characterization

Growth of internet reservation channels (M4)

A considerable number of hotel room bookings occur through internet travel intermediaries, resulting in multiples commissions paid by Hilton. The increased reliance on these platforms drives up commission's costs. While Hilton has agreements with several intermediaries to cap transactions fees, there's uncertainty about renegotiation these terms upon expiration. Although, through new partnerships invested in the Loyalty Programme – Hilton Honors, the Company anticipates drawing and retaining more guests and increase direct booking.

Other market risks (M5)

Hilton's business is also exposed to changes in inflation and other local or regional market conditions, although with potential lower financial impacts

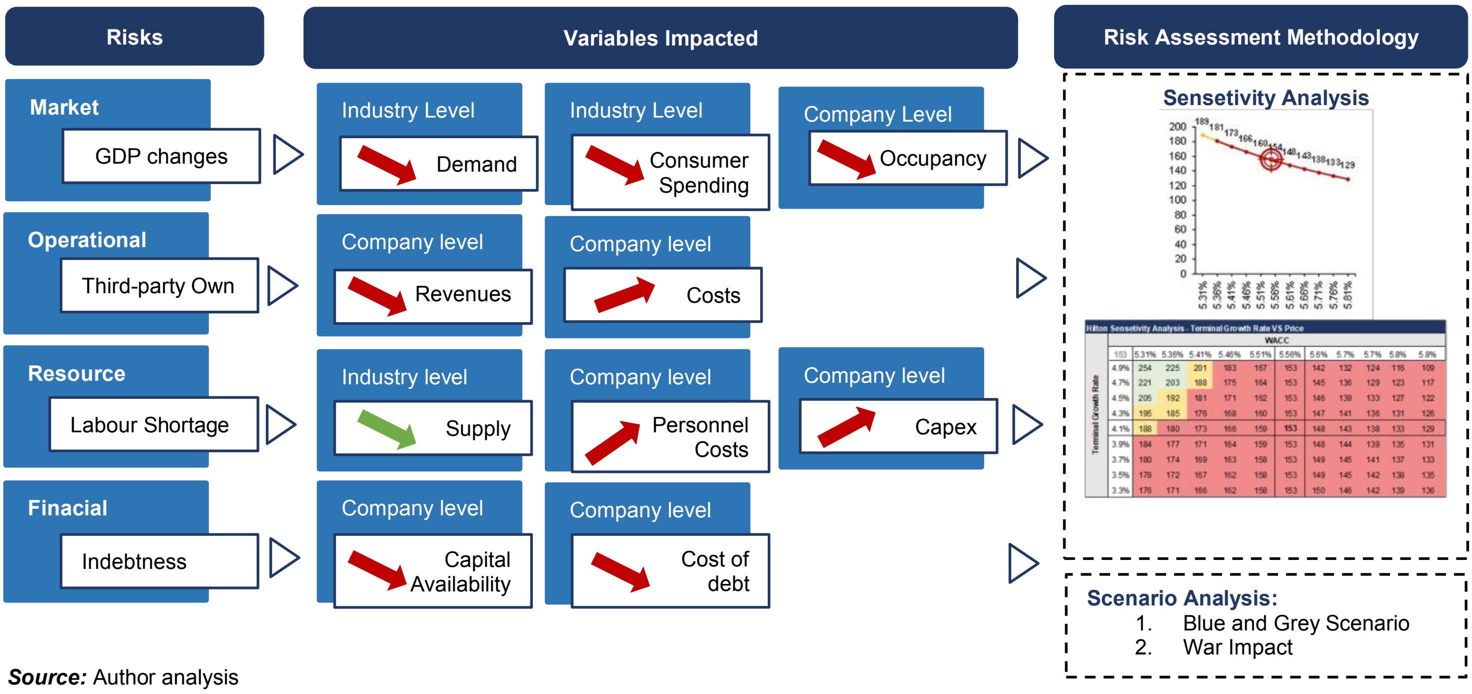
Regulatory and litigation risks (P3)

Hilton faces the impact of legal shifts or reinterpretations within established legal frameworks, which could potentially affect adversely the company's operations. These alterations might include: i) Escalation in taxes, duties, or governments royalty fees; ii) initiatives by political figures or regulators to delay or deny necessary licenses and permits; iii) embracing regulations that enforce efficiency standards; and iv) implementing government regulations mandating transparency in payments potentially necessitating the disclosure of competitive and sensitive commercial data.

Innovation of Operations (O3)

Falling behind in technology developments may significantly impact Hilton operations and competitive standing. Hilton's clients demand sophisticated technology for services provided by Hilton, such as, property management, reservation systems and loyalty programs. When the systems become outdated or need replacement, there might be delays or challenges in implementing new, leading to potential disruptions in Hilton's business operations and a decline in the company's competitive edge. Therefore, developing and maintaining these technological solutions might require substantial investment.

Appendix 7.4 – High and Medium-high level risks impact on Hilton's key value drivers



Source: Author analysis

Appendix 7.5– Sensitivity Analysis

Hilton Sensetivity Analysis - Terminal Growth Rate VS Price

Terminal Growth Rate	WACC										
		5.31%	5.36%	5.41%	5.46%	5.51%	5.56%	5.6%	5.7%	5.7%	5.8%	5.8%
	4.9%	254	225	201	183	167	153	142	132	124	116	109
	4.7%	221	203	188	175	164	153	145	136	129	123	117
	4.5%	205	192	181	171	162	153	146	139	133	127	122
	4.3%	195	185	176	168	160	153	147	141	136	131	126
	4.1%	188	180	173	166	159	**153**	148	143	138	133	129
	3.9%	184	177	171	164	159	153	148	144	139	135	131
	3.7%	180	174	169	163	158	153	149	145	141	137	133
	3.5%	178	172	167	162	158	153	149	145	142	138	135
	3.3%	176	171	166	162	158	153	150	146	142	139	136

Source: Author analysis

Appendix 7.6 – Evolution of Israel and Palestine war scenario breakdown

Israel-Palestine War impact in MEA room sales

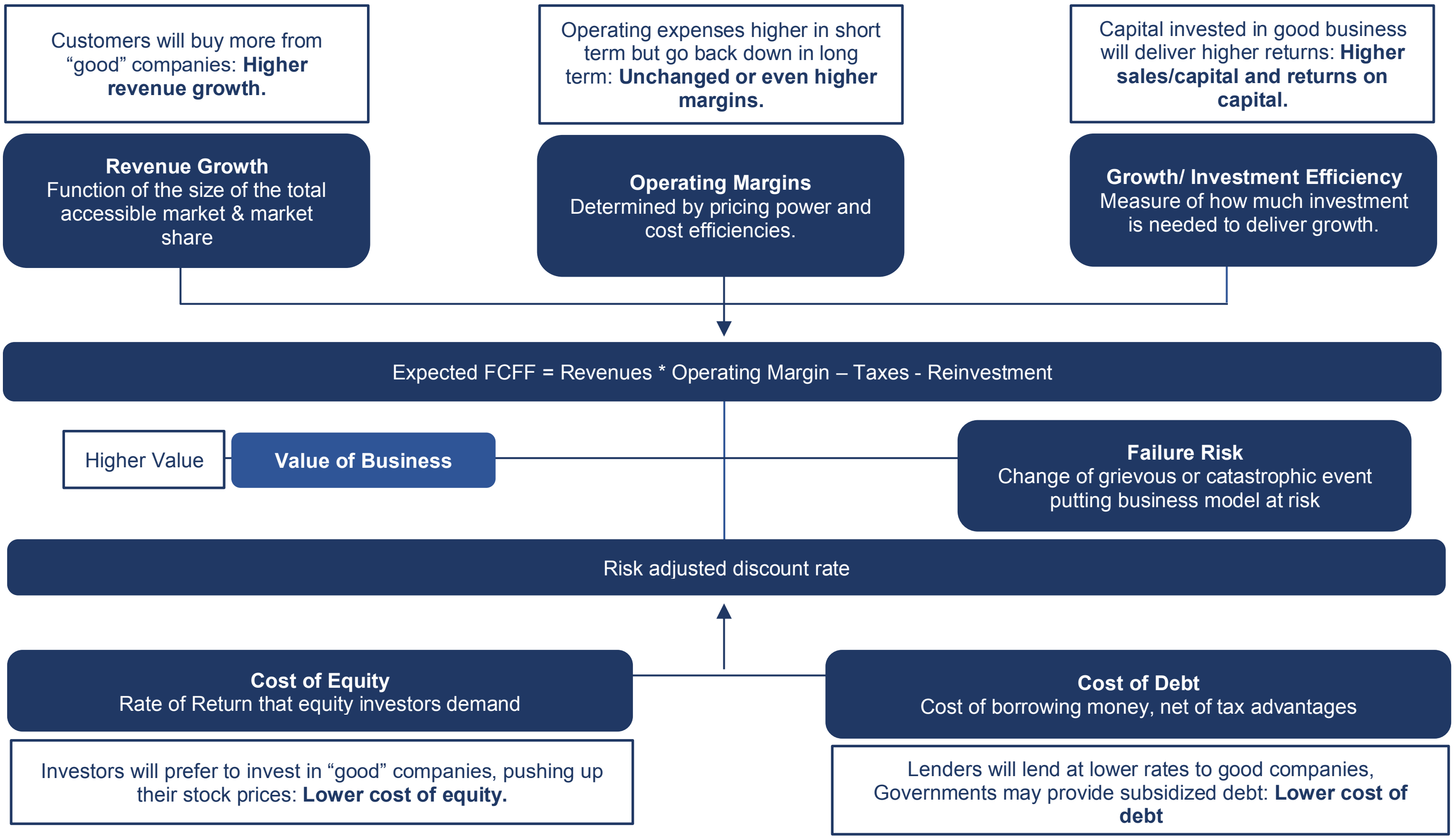
	MEA Room Sales					
	Ownership			Management		
	Affected %	Non-Affected %	Total Sales	Affected %	Non-Affected %	Total Sales
2025	39	57	96	104	1480	1584
2026	40	50	90	105	1637	1743
2027	41	48	89	106	1797	1904
2028	44	47	91	107	1972	2080
2029	45	44	89	109	2163	2272
2030	45	108	153	110	2372	2482

MEA Occupancy Rdecution Forecasted

Ownership	39%
Management	11%

Source: Author analysis

Appendix 7.7 – Damodaran and Cornell's ESG Virtuous Cycle



Source: Damodaran & Cornell (2020), adapted by Author.

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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