NOVA SCHOOL OF BUSINESS & ECONOMICS

MASTER IN FINANCE

HILTON WORLDWIDE HOLDINGS INC.

COMPANY REPORT

TRAVEL AND HOSPITALITY

20 DECEMBER 2023

STUDENT: FREDERICO SANTOS 42992@novasbe.pt
STUDENT: SOFIA LIMA 52965@novasbe.pt

Hilton's Path to Post-Pandemic Prosperity

Hilton Equity Research

- Hilton's stock prices have been growing lately, registering +20% increase in share prices in the last two and a half months. However, even with this large recent growth, we are confident it will still rise in the coming year.

- With the after-pandemic economic recovery and the calming situation regarding the Ukraine-Russia war, although remote work gained popularity and reduced the need for business travelling, clients are starting to travel for leisure more once again, easing up the risks for the future of the hospitality segment.

- The Management and Franchising segment is now the focus for Hilton, as well as for most of the firm's competitors. It shows great potential as it is extremely profitable as we predict the firm to have c.82% EBITDA margin once the ownership segment ceases to exist once the steady state is reached in 2034.

- Another large focus for Hilton is on their expansion and vision to become even more globalized. We foresee Hilton almost doubling their hotel room offering around the world, while their non-US weight in Total Gross Revenue is expected to go from 31% in 2022 to 49% in 2038.

Company description

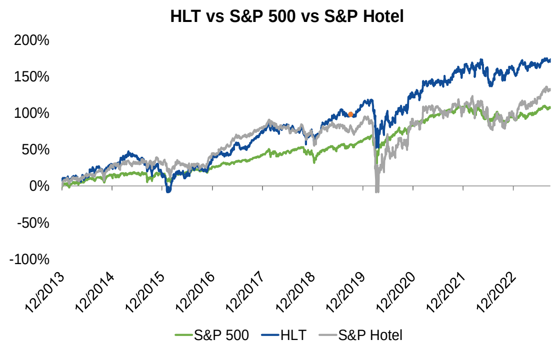
Hilton is a global hospitality company founded in 1919, renowned for its diverse portfolio of hotels and resorts, including well-known brands like Hilton Hotels & Resorts and DoubleTree by Hilton. The company is recognized for offering quality accommodations and services to a broad spectrum of travellers around 123 countries through a solid property portfolio includes around 7 165 hotels with approximately 1 130 million rooms.

Recommendation:	**BUY**
Total Shareholder Return	*13.04%*
Price Target FY24:	**199.74 $**
Dividend Yield	*0.34%*
Price (as of 15-Dec-23)	**177.23 $**

Reuters: HLT.N, Bloomberg: HLT:US

52-week range ($)	123.74-179.78
Market Cap ($m)	40,467
Outstanding Shares (m)	237.300
Fiscal Year-End Date	Dec, 31st

Source: Bloomberg



Source: Bloomberg

(Values in $ millions)	FY22	FY23F	FY24F
Revenues	3 736	4 094	4 500
Operating EBITDA	2 383	2 474	2 764
Net Profit	1 257	1 511	1 667
EPS	4.69	6.19	7.03
EBITDA Margin	63.8%	60.4%	61.4%
Operating Margin	59.4%	57.7%	58.8%
EV/EBITDA	21.02	19.83	19.16
ROIC	23.9%	24.9%	27.5%
FCF	2 021	1 714	1 925
Net Debt/EBITDA	4.11x	3.59x	3.47x

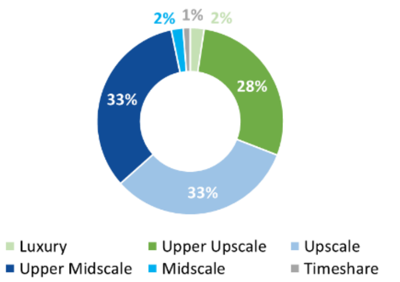
Source: Hilton Annual Reports and Own Estimates

Table of Contents

Company Overview

Hilton Worldwide Holdings Inc. is a global hospitality corporation founded in 1919 by Conrad Hilton in Texas. It operates a variety of hotels, resorts, and other lodging facilities. The corporation spread across the country, and by 1946, Hilton Hotels Corporation had already been created and listed on the NYSE. However, a significant shift occurred in 2007 when Hilton Hotels Corp. underwent an all-cash acquisition by the Blackstone Group LP, amounting to $26 billion, prompting its departure from the NYSE. Later, in 2013, Hilton made a triumphant return to the NYSE with the same ticker, generating approximately $2.35 billion in its second IPO. Since then, it has grown to become one of the world's largest and most recognizable hotel brands. Additionally, a significant transformation took place in 2017 when Hilton spun-off its time-share business, establishing Hilton Grand Vacations and Park Hotels & Resorts. This strategic move led to the creation of three independent publicly traded entities, facilitating a reduction in debt, taxes, and expenditures. This restructuring played a pivotal role in Hilton's transition toward a complete asset-light model.

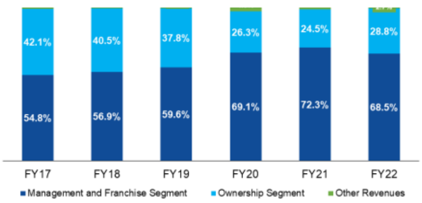
Graph 1: Hilton's hotel rooms, per chain scale in 2022



Source: Hilton Annual Reports

Nowadays, Hilton holds a powerful and diverse portfolio of 18 brands, usually in the upper mid-market segment (graph 1). Its solid property portfolio includes around 7 165 hotels with approximately 1 130 million rooms in 123 countries. The corporation owns and leases hotels and resorts, but its major focus is on brand management, franchising, and licensing.

Graph 2: Hilton's Revenue Breakdown evolution



Source: Hilton Annual Reports

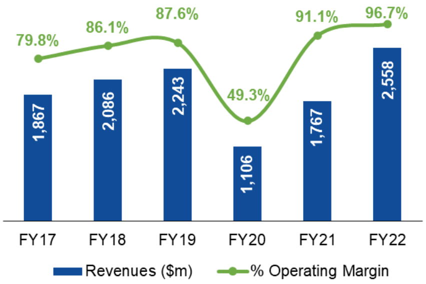
Business Model

Hilton's services are provided through the following business segments, which are operated independently but collaboratively: Management and Franchising Segment and Ownership Segment. Moreover, the company discloses an additional revenue segment referred to as Other Revenues, which is reported separately.

- Management and Franchising Segment

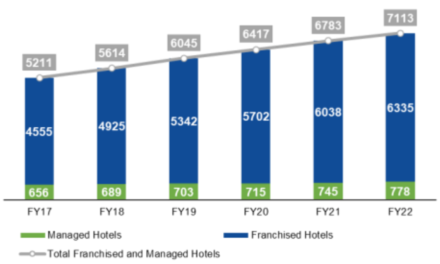
Hilton makes revenue in this category by collecting monthly fees determined by contracts with third-party hotel owners in exchange for Hilton's brand name and/or managerial competence. In exchange for fees and royalties, Hilton provides these hotels with its experience, branding, and operational support. The Management and Franchise (M&F) business is the most important revenue generator for Hilton and helps the corporation grow its global presence without owning physical facilities. It has contributed to more than 68% of total revenues in FY22 and it also represents the segment with higher operating margin (97% in FY22) (graph 3). This level of revenue contribution results from the fact that Hilton's management and franchise segment counts with an extensive portfolio of properties (7 113 in FY22) with more than 1 000 000 rooms, representing almost 99% of the total number of rooms in Hilton's portfolio (graph 4).

Graph 3: Hilton Management and Franchise Segment Historical Performance



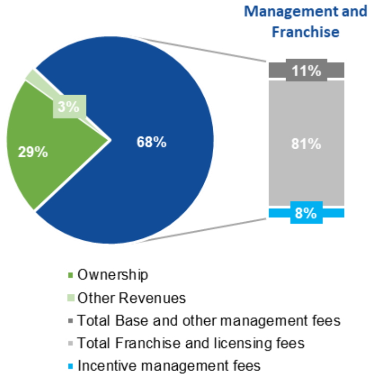
Source: Hilton Annual Reports

Graph 4: Hilton's Managed and Franchised Number of hotels evolution ($M)



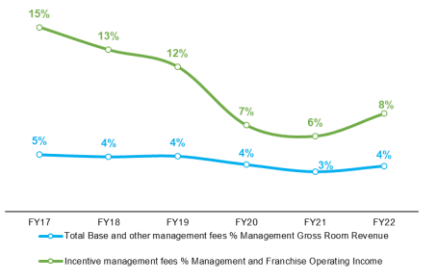
Source: Hilton Annual Reports

Graph 5: Hilton segments revenue breakdown (FY22)



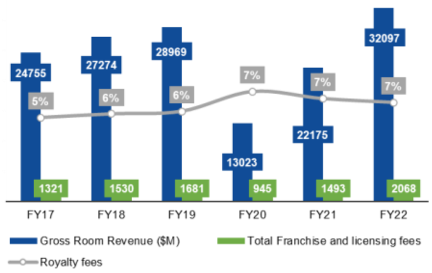
Source: Hilton Annual Reports

Graph 6: Hilton's Management Fees Breakdown evolution



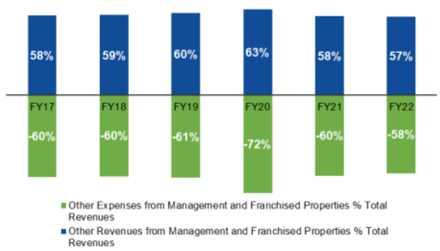
Source: Hilton Annual Reports

Graph 7: Hilton's Franchising Fees evolution ($M)



Source: Hilton Annual Reports

Graph 8: Hilton's Other Revenues and Other Expenses from Managed and Franchised Properties Evolution ($M)



Source: Hilton Annual Reports

Additionally, it is possible to denote a positive increase of this segment's revenues over the years (9.7% CAGR between FY17 and FY19). In 2020, with the consequences of the pandemic, this segment had a turnover value of $1 106m (51% decrease compared to 2019). However, in 2021 and 2022, it registered an incredible recovery achieving the pre-pandemic values, $2 588m in FY22 (52% CAGR between FY20 and FY22). This evolution is the result of Hilton's intention to utilize its brand reputation and industry expertise to grow its business and broaden its customer base, without substantial capital investments. Notably, it was only with the spin-off in 2017 that the majority of the company's revenues shifted towards a fee-based model.

Additionally, Management and Franchise Segment can be examined independently.

Management

In 2022, this sub-segment represented around 19% of the Management and Franchise's segment revenue (graph 5), totalling $490M, marking an impressive 79% growth from 2021. As of the end of 2022, Hilton successfully managed 778 hotels, boasting a total of 244 037 rooms on behalf of third-party owners. The revenues for Hilton's Hotel Management sub-segment primarily stem from two sources (graph 6). The majority of revenue (60% in FY22) comes from a base management fee, calculated as a percentage of the hotel's monthly gross revenue. Additionally, this segment also benefits from incentive fees (40% of the subsegment's revenue), which are calculated as a percentage of the hotel's operating profits, where applicable.

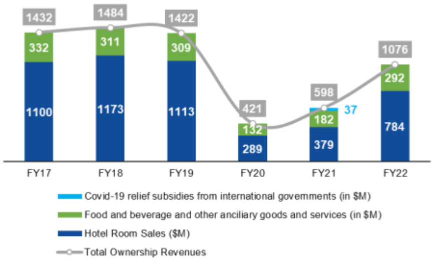
Franchise

The franchising sub-segment, primary driver of Hilton's revenue, is responsible for 81% of the total segment (graph 5), amounting to $2 068m (graph 7), and reflecting a substantial increase of 39% in FY22. This segment encompasses a network of 6 335 hotels and resorts, collectively offering 865 781 rooms. As these properties are owned and managed by third-party entities, revenue from this segment is derived from various sources, including monthly royalty fees, application and initiation fees assessed when new hotels join the Hilton system, fees associated with contract extensions, and charges related to changes in hotel ownership.

Other Revenues from Managed and Franchised Properties

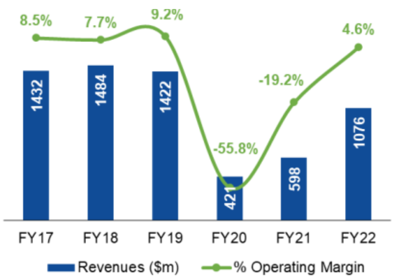
Hilton also acknowledges additional revenues derived from its franchised and managed properties, accounting for 57% of total revenues (including these other revenues from managed and franchised properties) in FY22 (graph 8). These revenues represent reimbursements made by property owners to cover the extra expenses incurred by Hilton during the management or franchising of these properties. The associated expenses are recognized as they occur and are categorized as other expenses related to managed and franchised properties. Although this cannot be verified historically, the revenues generated from reimbursements are expected to match with these expenses. A potential reasoning for this mismatch may be due to

Graph 9: Hilton's Ownership Segment Revenues Breakdown



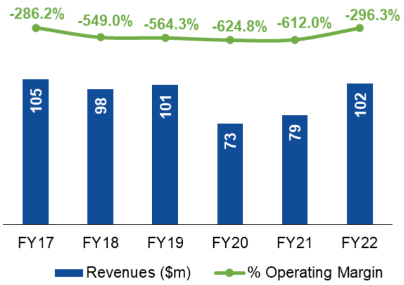
Source: Hilton Annual Reports

Graph 10: Hilton Ownership Segment Historical Performance



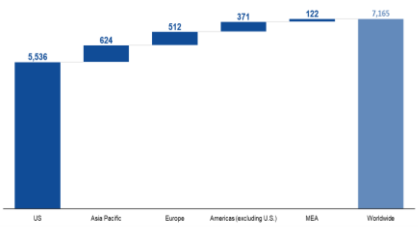
Source: Hilton Annual Reports

Graph 11: Hilton Other Revenues Historical Performance



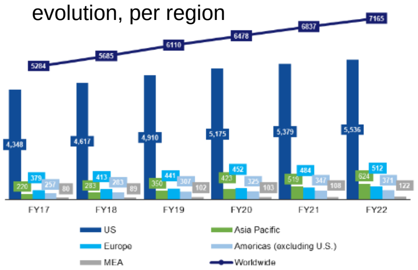
Source: Hilton Annual Reports

Graph 12: Hilton's hotel properties, per region in 2022



Source: Hilton Annual Reports

Graph 13: Hilton's hotel rooms evolution, per region



Source: Hilton Annual Reports

misalignments between the period where the expenses occur and the period where they are reimbursed. Bearing this in mind, it is important to note that, during our analysis, we do not consider these revenues as part of the total revenues of the firm, as these are strictly related to the other expenses mentioned above rather than coming from the services the company provides.

- ### Ownership Segment

In this segment, Hilton directly owns and manages a small number of hotels and resorts, which are frequently in prominent or important areas. At these owned properties, Hilton makes money on room reservations as well as other visitor services, such as food & beverage, other associated goods, and services to both individual visitors traveling for business or pleasure and to groups traveling to events (such as business conferences) (graph 9). The Ownership sector gives the business a consistent stream of revenue and enables it to promote the quality of its brands. At the end of FY22, the Ownership division included 52 hotels with 17 612 rooms that Hilton or its affiliates owned or leased and generated $1 076m (+80% in 2022) in revenue (graph 10).

The number of properties in this segment has been declining over time (-7% CAGR FY17–FY22), with a notable drop in 2017 (-48%) brought on by the spin-off that highlighted Hilton's strategy to transition to a fully asset-light business model, though the timing varies by region. For instance, Hilton has fully embraced this strategy in the US having no owned properties since FY19, but, in contrast, 11.5% of hotel rooms are owned and leased in Europe, where 67% of the segment's assets are located.

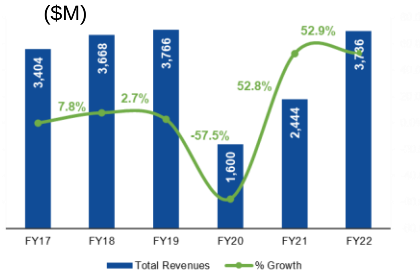
- ### Other Revenues

Other revenues encompass income derived from ancillary support services for hotel operations across owned, leased, managed, and franchised properties, accounting for less than 3% of total revenues (graphs 5 and 11). These services include purchasing operations and other sources of operating income.

- ### Geographic Operations

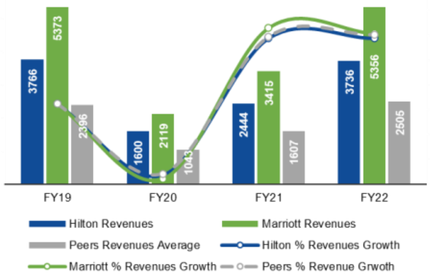
Despite having its headquarters in Virginia, United States, Hilton is an international firm that divides the locations of its properties into five different regions: the US, the Americas without the US, Europe, the Middle East and Africa (MEA), and Asia Pacific (APAC). Despite having expanded its operations internationally, the company still relies heavily on its US business, where almost 80% of its system-wide hotel properties are located and where 80% of its revenue is generated (graph 12). With a CAGR of 6% over the past five years, Hilton has expanded the number of hotels it operates in all regions, from 5 284 in FY17 to 7 165 in FY22 (graph 13). The growth is more outstanding in less saturated places like the Middle East and Africa and Asia Pacific, where its CAGR for properties is 8.8% and 23.2%, respectively. Together, these factors may emphasize Hilton's strong potential for future expansion.

Graph 14: Hilton's Revenues Evolution ($M)



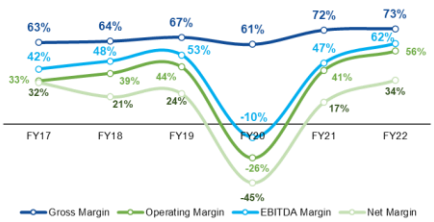
Source: Hilton Annual Reports

Graph 15: Revenues Evolution $m (Hilton vs. Marriott vs. Peers Average)



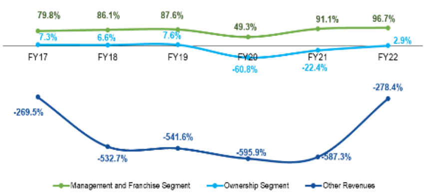
Source: Companies Annual Reports

Graph 16: Hilton's Profitability Ratios Evolution



Source: Hilton Annual Reports

Graph 17: Hilton's Operating Margins Evolution by segment



Source: Hilton Annual Reports

Performance Analysis

- ## Revenues growth

Hilton's revenues were growing at a 5.2% CAGR during the 3-year span prior to the pandemic crisis that deeply affected the travel and hospitality industry. In 2020, the company's revenues dropped by roughly 58%, which shows the struggles brought upon by a health crisis in an industry that relies so heavily on travel. These numbers came back up to regular values in 2022 ($3 736m in FY22) and are expected to grow at a similar rate to the pre-pandemic years (graph 14).

While Hilton's revenues growth over the past 4 years is aligned with its peers, the firm still finds itself behind Marriott in metrics such as market share and revenue. On the other hand, compared to the rest of the competitors, Hilton shows stronger performance in terms of revenue. Moreover, one can also realise that both Hilton and its peers copped similarly with the pandemic crisis as the revenues lost during FY20 and FY21 were mostly recovered in FY22 (graph 15).

- ## Profitability Analysis

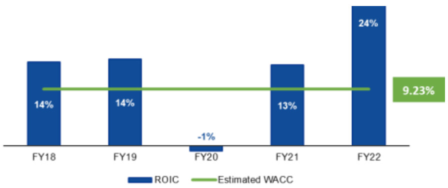
Examining graph 16, it becomes apparent that Hilton demonstrates a strong ability to generate revenue with an impressive growing gross margin, around 67% in FY19 which grows to nearly 73% in FY21 and FY22. Hence, its overall profitability is strongly impacted by substantial operational costs, mainly regarding the ownership segment, including marketing, payroll, and administrative expenses, resulting in a 62% EBITDA margin in 2022.

Further analysis by business segments reveals that the Management and Franchise segment stands out with an impressive 97% operational margin in FY22, signifying its substantial profitability. In contrast, the Ownership segment has significantly lower operational margins and even lost money in FY20 and FY21 (with operational margins of -61% and -22%, respectively), which can be easily justified by the high fixed costs implied by the segment. In addition, the Oher Revenues segment account for very negative operational margins (-278% in FY22), since it represents an additional income that the company generate only from support services to the two other main business segments (graph 17). Therefore, the costs for these services can be substantial and end up outweighing the revenue generated. It's important to note that the costs from the other revenues segment do represent expenses that each of the main segment would incur on if run separately. However, Hilton itself does not discriminate these costs and does not take them into account when comparing the performance and profitability of the main segments, and thus, we followed the same rational.

- ## Return on Invested Capital (ROIC)

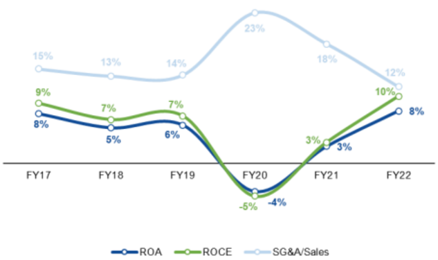
Over its historical performance, Hilton consistently generated value by surpassing its estimated 9.23% cost of capital, except in FY20. In FY22, the ROIC soared to 24%, indicating a value-creating scenario of almost 15%. The most notable deviation occurred in 2020, with ROIC plunge to -1%, which can be attributed to negative total

Graph 18: Hilton's ROIC evolution vs. Estimated WACC



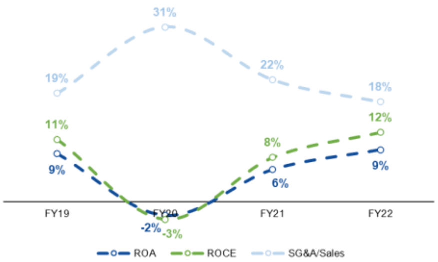
Source: Hilton Annual Reports and Own Estimates

Graph 19: Hilton's Profitability from Investors Ratios Evolution



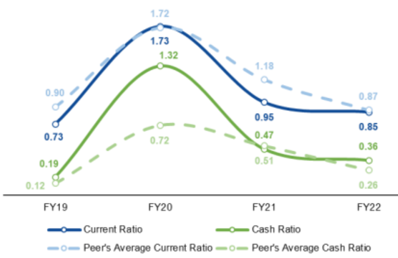
Source: Hilton Annual Reports

Graph 20: Hilton's Peers Profitability from Investors Ratios Evolution



Source: Companies Annual Reports

Graph 21: Hilton's Profitability from Investors Ratios Evolution



Source: Companies Annual Reports

comprehensive income. This anomaly was recognized as a consequence of the unique circumstances and external factors caused by the pandemic. The subsequent rebound in 2021, where the return already exceeded the average cost of capital, showcased a remarkable recovery. Moreover, the substantial growth observed between FY21 (13%, similar to pre-pandemic level) and FY22 (24%) highlights Hilton's strategic trajectory towards achieving attractive returns on its operational investments in the future, through betting on its highest margins segment, the management and franchising, which coincidently has the lesser needs for invested capital funds (graph 18).

- Profitability from Investments (ROA, ROCE, SG&A/Sales)

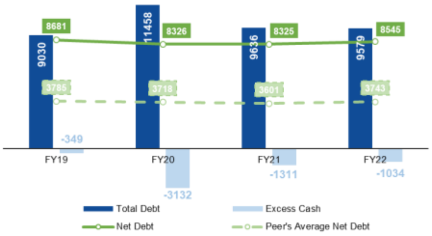
Before the onset of the 2020 pandemic, Hilton exhibited a robust financial performance, underscored by favorable returns on investments. Both Return on Assets (ROA) and Return on Capital Employed (ROCE), although lower than the SG&A/Sales ratio, still reflect reasonably efficient asset and capital utilization, stringent cost controls, and robust profitability. However, as the pandemic unfolded, the SG&A/Sales ratio surged, signifying unprecedented challenges. This led to negative values for both ROA (-4%) and ROCE (-5%) in FY20, with the elevated SG&A/Sales ratio (23%) highlighting the harsh economic realities and increased expenses relative to shrinking sales during this tumultuous period.

Moving into FY21, signs of recovery emerged. While SG&A/Sales remained elevated (18%), Hilton managed to pivot. Positive returns for both ROA and ROCE (both 3%) signaled a journey back to stability. Although the persistent SG&A/Sales ratio suggested ongoing cost pressures, the positive returns underscored Hilton's resilience and strategic adjustments. By FY22, a tendency of convergency is denoted between the three ratios in all industry, as ROCE and ROA rose higher values than those from before the pandemic while bringing SG&A/Sales decreased to lower ones. This slightly better rebound suggests improvements in efficiency and profitability the market was not able to fully follow (graphs 19 and 20).

- Capital Structure and Liquidity Analysis

Hilton has proactively fortified its financial position in response to the global impact of COVID-19, strategically enhancing liquidity and cash reserves over recent years. Notably, the company experienced a positive shift in its current ratio from FY19 to FY20 due to a deliberate decision to suspend share repurchases and dividend payments throughout 2020 and 2021. Despite these efforts, Hilton faces ongoing challenges in meeting short-term obligations, and, in comparison to the period before 2020, 2020 itself marked a significant reversal in its liquidity ratios, signaling improvement relative to industry peers, followed by a substantial decline in 2021. By 2022, these ratios reverted to approximately pre-pandemic levels. Notably, Hilton consistently outperforms industry peers in its cash ratio, maintaining higher reserves, while its current ratio lags behind (graph 21). This unique dynamic, underscores Hilton's strength in maintaining a robust cash position relative to peers, even though its current ratio is slightly lower. However, the interpretation of these metrics is complex, given that a significant portion of Hilton's current liabilities is tied to future commitments related to the Loyalty Program, and a substantial share of these obligations doesn't immediately result in cash outflows.

Graph 22: Hilton's Net Debt Composition and Evolution ($M)



Source: Hilton Annual Reports

The pandemic has amplified Hilton's reliance on debt financing which particularly in the current uncertain industry landscape, poses substantial financial risks for the company. In fact, Hilton experienced a credit rating downgrade from BB+ to BB by S&P in 2020, reflecting the negative outlook arising from the pandemic crisis. Despite the rise in Total Debt that year, Net Debt actually decreased due to a significant liquidity injection into the company. By 2020, the Total Debt reached $11.5 billion, primarily driven by the issuance of $4.4 billion in bonds. Additionally, recognizing the potential drawbacks of excessive debt dependence, Hilton has consistently tried to reduce its Net Debt since 2019. In comparison to its peers, Hilton's Net Debt level was substantially higher. Whether through accumulating excess cash from earlier liquidity injections or reducing overall debt, the hotel chain appears to be gradually transitioning towards a more conservative capital structure, aligning itself closer to the industry average (graph 22).

Ownership Structure and Investor's Return

Hilton, which trades on the New York Stock Exchange (NYSE) under the symbol "HLT," has a market capitalization of $40 467 million as of September 12th, 2023, represented by 261 513 566 shares. There is only one class of voting stock and each share of common stock that a shareholder owns entitles them to one vote. In addition, with a 98.06% free float, strategic entities control only 1.94% of the company's shares, with The Vanguard Group holding the greatest share position with 9.93% of the total. In addition, 97.23% of shares available for trading in the open market are held by institutional holders, 1.87% by individual entities and 0.9% by other investors (graph 23). With 3 285 839 shares, Christopher J. Nass Etta, president, and chief executive officer, has 1.28% of the company's share capital.

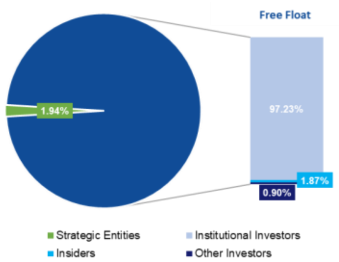
Table 1: Board of Directors

Christopher J. Nassetta	CEO and Director of Hilton Corporation
Jonathan D. Gray	Chairman of the Board of Directors
Charlene T. Begley	Director and Audit Committee Chair
Chris Carr	Director
Melanie L. Healey	Director
Raymond E. Mabus	Director
Judith A. McHale	Director and Compensation Committee Chair
Elizabeth A. Smith	Director and Nominating & ESG Chair
Douglas M. Steenland	Director
Kevin J. Jacobs	CFO and President, Global Development
Michael W. Duffy	Senior Vice President, Chief Accounting and Risk Officer

Source: Bloomberg

In an effort to increase shareholder value, Hilton started a stock repurchase program in 2017 which was continued through 2019. Moreover, the company paid out a quarterly cash dividend of $0.15 per share on a regular basis from 2017 until 2020, showing an increase from the $0.07 quarterly that used to be paid out before. Both these changes, dividend increase and share buyback program, come after the company decided to pursue an asset light business model where the focus would be to reduce property owning in attempts to make the business both more profitable and less risky, due to lesser fixed costs. This gave the company freedom to increase the value given back to its shareholders through.

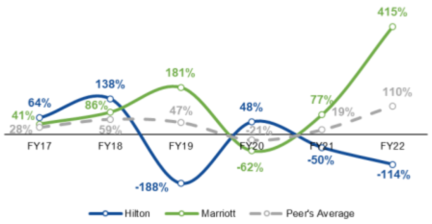
Graph 23: Ownership Structure



Source: Bloomberg

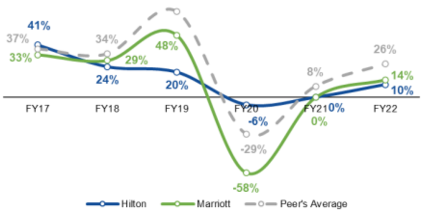
However, in order to protect the company's cash reserves, the dividend payments and the share repurchase program—of which there was still $2.2 billion available—were temporarily suspended in March 2020 in response to the financial difficulties brought on by the Covid-19 pandemic. Furthermore, Hilton outperformed its peers in Return on

Graph 24: REO Evolution (Hilton vs. Marriott vs. Peer's Average)



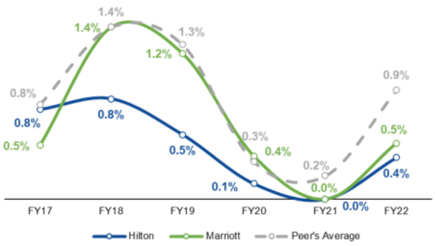
Source: Companies Annual Reports

Graph 25: Payout Ratio Evolution (Hilton vs. Marriott vs. Peer's Average)



Source: Bloomberg

Graph 26: Dividend Yield Evolution (Hilton vs. Marriott vs. Peer's Average)



Source: Bloomberg

Graph 27: Hilton Stock Performance (vs Marriott, S&P 500 and S&P Hotel)

Source: Bloomberg

Equity (ROE) due to the stronger strategic buyback initiative started in 2017, resulting in a significant decrease in the equity book value, even reaching negative levels since 2019 (-188% ROE), only excluding 2020 due to the precautionary actions taken, evolutions that can be observed in graph 24. As mentioned before, similar strategies were being employed by other companies, such as InterContinental and Marriott, which potentially distorted the accuracy of ROE analysis. Moreover, the decrease on the Equity book value is mainly a consequence of both the share buyback and dividend pay-out, as the company has been giving more money to shareholders than the amounts it has been profiting from its operations.

Later, in March 2022, the board of directors decided to start up share repurchases again, demonstrating their commitment to keeping the business solvent. The $0.15 quarterly cash dividend, which was supposed to be distributed in the second quarter of 2022, was also approved by the board. Finally, in November 2023, the Board of Directors has approved the repurchase of an extra $3.0 billion worth of common stock within the framework of the company's existing stock repurchase program. This increases the total amount authorized for future repurchases to approximately $4.2 billion, amount that has been constantly changing and thus should not be limiting regarding repurchase projections. Hence, this move reflects the company's intention to continue its regular practice of distributing quarterly cash dividends in the future.

Further, Hilton's main competitors have also been increasing their dividends while repurchasing some of its stock. While the majority of the main competitors, such as Marriott and IHG, have had slightly larger dividend pay-outs and dividends yields, and have also been increasing these values, Hilton has been the leader, alongside Marriott in share repurchases (graphs 25 and 26). This way, one can expect Hilton to bring dividend yield values up, closer to the industry ones.

Stock Performance

From 2013 through 2022, Hilton's stock performance was influenced by two significant occurrences. First, in late 2015, the acquisition of Starwood by Marriott, which was the biggest acquisition in hotel industry history, caused a decline in Hilton's returns in 2016. This happened since Marriott became the biggest operator within the industry, with the largest properties' portfolio. Second, due to COVID-19, Hilton returns hit their lowest point by the middle of March in 2020, due to the restrictions that kept people home, prohibiting them of travelling, as well as caused by the significantly drop in household spending, mainly in non-essential expenses such as travels. Furthermore, it was also denoted a reduction in business travels caused by the wider use of online meetings. Hence, since this downturn, Hilton stock increased 163% from March 2020 to the present, achieving the highest price per share of $179.78 on December 14th, 2023.

If Hilton and Marriott are compared, although Marriott's stocks have had greater returns, Hilton has still outperformed the market over the past 10 years, including during the pandemic, even with the severe restrictions in terms of traveling (graph 27).

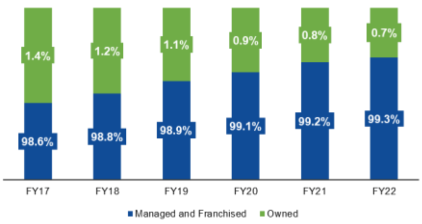
Hilton's Strategy

Hilton's strategy is multifaceted, aiming to not only expand its operations but also to create value and solidify its position as the foremost choice for both travellers and hoteliers in the global hospitality industry.

- ### Asset-light business model

In recent years, many companies, including Hilton, have transitioned from asset-heavy to asset-light business models. This strategic shift facilitates accelerated growth with reduced capital investment and mitigates risks associated with hotel ownership. Under this streamlined, fee-based approach, Hilton partners with third-party owners through license agreements to provide management services or access to its intellectual property (IP). In this way, Hilton can expand its operations without the need for significant capital outlay, as the responsibility for building and maintaining hotels rests with the third-party owners. As a result, graph 28 clearly illustrates this strategy, showing a decline in the overall number of owned hotels as opposed to managed and franchised hotels, which together account for over 99% of all properties.

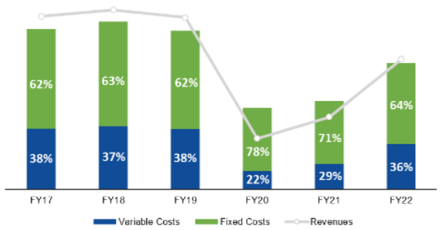
Graph 28: Hilton's properties by segments



Source: Hilton Annual Reports

This asset-light strategy not only promotes growth but also enhances overall return on investment and liquidity. Moreover, this lesser need for capital can lead to faster expansions and globalization, aspects that can be key in taking advantage of booming periods from the industry and are aligned with the company's objectives. Even more importantly, this approach proves advantageous in periods of economic downturn as it shields against the negative impacts of high fixed costs associated with hotel ownership, ensuring greater resilience in changing economic conditions. This tendency can be observed in graph 29, since in 2020 and 2021, expenses for owned and leased hotels witnessed a decline, driven by reduced occupancy levels, resulting in a decrease in variable costs such as variable rent. Variable costs, constituting approximately 35% of ownership revenues, are projected to maintain this percentage in the coming years, as Hilton does not intend to alter its variable cost framework. But even in periods of abnormally low occupancy, it is difficult to significantly cut fixed costs associated with the upkeep of owned and leased hotels, which can be denoted in FY20, where 78% of the segment's costs are fixed and representing an increase in relation to the previous year (62% in FY19). Therefore, a slight decrease in fixed costs is expected as Hilton plans to reorganize certain fixed rent agreements, progressively reducing the number of owned and leased properties.

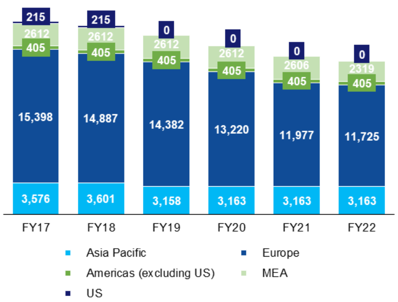
Graph 29: Hilton's owned costs distribution in % of total owned costs and owned revenue evolution



Source: Hilton Annual Reports

Furthermore, there are certain gaps between the various geographical areas in the company's strategy of a progressive asset-light business model. For instance, the company in the US region owns no properties and mostly serves as a franchisor, which means that it has already fully switched to an asset-light portfolio. However, the percentage of owned hotels in Europe is still very high, representing around 67% of all Hilton-owned hotels worldwide (graph 30). This discrepancy can be attributed to the fact that branding is far less common outside of the United States, where independent

Graph 30: Hilton's owned rooms evolution, by geography

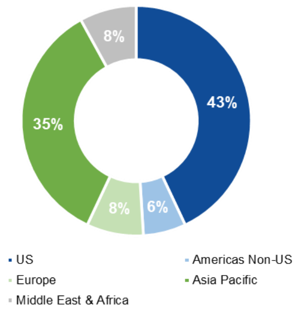


Source: Hilton Annual Reports

operators dominate most markets. Therefore, in the US, operators show a preference for franchise and management agreements as they seek access to Hilton's intellectual property and brand reputation. In contrast, hotel owners in other parts of the world are more interested in leveraging the company's expertise and management experience rather than focusing on the brand itself.

- Development Pipeline

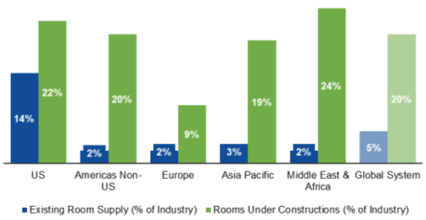
Graph 31: Hilton's Pipeline Breakdown by Geography (March 2023)



Source: Hilton Annual Reports

Hilton pretends to create a diverse and high-quality pipeline globally to fill gaps worldwide. The objective is to achieve significant returns with minimal capital investments. By the end of 2022, Hilton had a pipeline of 2 821 hotels and almost 430 000 rooms, of which 50% are under construction. This is predominantly within the Management and Franchise segment, demanding minimal capital input from Hilton ($320m) and external investors ($50b). Notably, the pipeline places particular importance on rapidly expanding markets beyond the United States, with a specific focus on the Asia-Pacific region (35% of Hilton's pipeline by March 2023), demonstrating the company's desire to increase its market share in this attractive market (graph 31).

Graph 32: Hilton's Pipeline and Existing Rooms Market Share by Geography (March 2023)



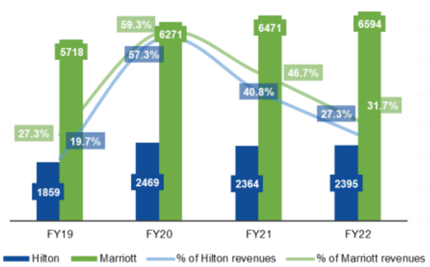
Source: Hilton Annual Reports

In addition, Hilton's market share of rooms under construction (Hilton's rooms under construction compared to the total rooms under construction of the industry, which stands at roughly 20%, graph 32) is notably larger, around 3.7 times, than its current market share of total rooms as of July 2023 (c.5%). Thus, Hilton surpasses its competitors like Marriott and Intercontinental in this comparison, both with a development market share only 2.6x larger than their current share of rooms. Hence, Hilton is strategically shaping its clear vision for future expansion, aiming for an impressive global industry-leading increase in room availability, which has seen a remarkable growth of 127% from 2007 to 2022, while no other competitor has reached 100% growth in this period.

- Loyalty Programs and Strategic Partnerships

Global hotel chains compete fiercely to hang on to their most valuable customers, which are repeat visitors who generate substantial income. In order to achieve this, loyalty programs (LP) have proliferated, particularly within chains of mid-range and luxury hotels. These initiatives help hotels increase revenue and reservations, provide priceless insights into client preferences, and improve the overall visitor experience.

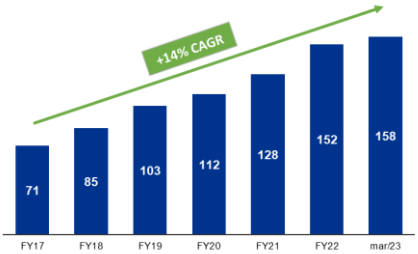
Graph 33: Hilton and Marriott liabilities for LP, in $M; liability LP as a percentage of total revenues



Source: Companies Annual Reports

Through these programs, guests interact with hotels using a special currency called loyalty points. Although these points signify a promise for future services, they simultaneously appear as liabilities on the balance sheets of hotels. As such, the worth of these points can have a significant impact on a company's earnings. As the value of points escalates, they are converted into deferred revenue, directly impacting profitability negatively. In 2022, Hilton's LP liabilities reached $2.4 billion, while Marriott's stood at $6.6 billion, constituting 64% and 123% of their respective revenues (graph 33).

Graph 34: Hilton Honor's number of members historical evolution



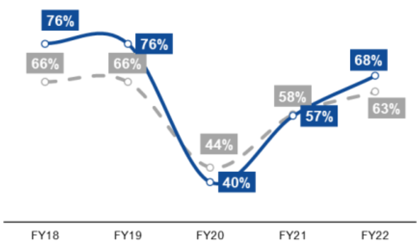
Source: Hilton Annual Reports

Hilton's loyalty program, Hilton Honors (HH), has experienced remarkable expansion, rising from 71 million members in 2017 to over 158 million members by March 2023 (graph 34), making a substantial contribution to room sales. In 2023, HH members accounted for more than 62% of the hotel chain's occupancy. Hilton has established over 70 creative alliances under this program, mostly with businesses from related industries such as credit card companies, airlines, and rail and automobile rental agencies. Remarkably, Hilton became the first company to permit members to use their points on Amazon when it pre-sold American Express HH points, securing a substantial $1 billion revenue infusion. By expanding the range of benefits available to HH members, Hilton hopes to attract in more business from both current and potential clients while increasing reservations.

Moreover, in response to the travel constraints imposed in 2020, Hilton extended certain benefits within its program, including an extension of the points expiration window throughout 2022. As a result, the number of HH members is expected to continue growing, with projections estimating 200 million members by the end of 2024. These dual effects will contribute to the expansion of Hilton's liabilities associated with LP, both in terms of dollar amounts and as a percentage of revenues.

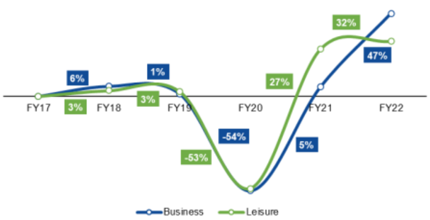
Apart from the previously mentioned advantages, Hilton's Loyalty Program (LP) offers advantages like direct booking through their website or app, avoiding intermediaries and streamlining the process. Innovations like the Digital Key enhance guest experience, showcasing Hilton's commitment to seamless stays. Therefore, initiatives like digital check-out and partnerships with entertainment platforms, as Netflix, contribute to the Hilton Honors app's convenience and personalized service.

Graph 35: Hilton vs. Hotel Industry Occupancy Rates evolution



Source: Companies' Annual Reports

Graph 36: Business vs. Leisure Travel Spending evolution growth



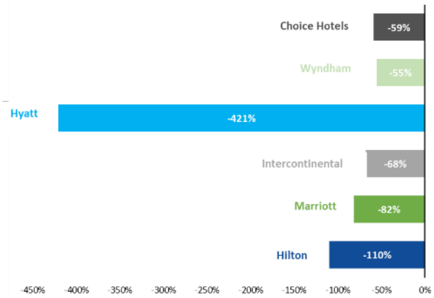
Source: AHLA and Accenture

Macroeconomic Context and Main Driver

The COVID-19 Pandemic and Economic Recovery

The COVID-19 pandemic dealt a severe blow to the hotel industry, showing how susceptible to outside shocks the industry is, with 2020 marking a historically devastating year. Travel restrictions and stay-at-home orders led to plummeting occupancy rates (40% for Hilton and 44% for the industry – graph 35), massive job losses, and global hotel closures. Further, international arrivals plummeted by 72% with the pandemic, resulting in a staggering $1.3 trillion loss in export earnings. In 2021, the United Nations World Tourism Organization noted that the industry's recovery was being mainly driven by domestic tourism, with foreign visitation having stagnated as a result of poor consumer confidence. Some studies suggest that the full recovery in the hotel sector, which will be slower than other industries', will only fully happen by 2024. The rise of virtual alternatives for business meetings, coupled with travellers' demand for increased flexibility in cancellation policies, poses challenges for the industry's rebound (graph 36).

Graph 37: Hilton vs Peers' EBIT % change from 2019 to 2020



Source: Companies' Annual Reports

Examining the impact on hotel business models reveals that asset-light strategies, such as those employed by Choice Hotels and Wyndham, have proven more resilient. These franchisors experienced lower earning decreases compared to traditional hotel models, as highlighted in a study published in the Heliyon Journal in 2020. This can be verified by the lower EBIT reductions between FY19 and FY20 (-59% and -55%, respectively), showcasing the effectiveness of asset-light strategies in navigating the challenges brought about by the pandemic (graph 37). Hilton, along with some of the other competitors, has now been turning their focus towards this revolutionary approach which minimizes fixed expenses and provides greater flexibility during economic downturns.

Safety and Security

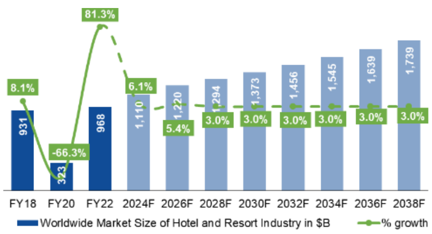
In the current geopolitical landscape, characterized by ongoing conflicts, namely between Ukraine and Russia, and the looming threat of terrorism, the hotel and travel industry is grappling with heightened challenges that significantly impact its operations, leading hotels to make substantial investments in security measures. This evolving scenario has triggered a shift in consumer behaviour, with travellers becoming more vigilant and selective in choosing destinations perceived as secure. Regions indirectly affected by conflict or terror incidents often witness a decline in tourism, resulting in decreased hotel occupancy rates and revenue losses, like Poland and Turkey.

Hence, major US hotel companies, such as Marriott, Hilton, Hyatt and Intercontinental are opting to temporarily pause future hotel developments and investments rather than completely ceasing operations in Russia. Additionally, Marriott, Hilton, and IHG have confirmed the closure of their corporate offices in Moscow, aligning their actions with the industry-wide commitment to address the unfolding situation in the region.

Industry Overview and Main Drivers

Industry Overview

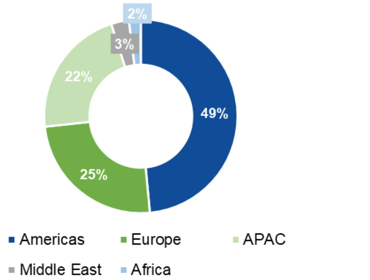
Graph 38: Worldwide Market Size Hotel and Resort Industry evolution ($B)



Source: Marketline

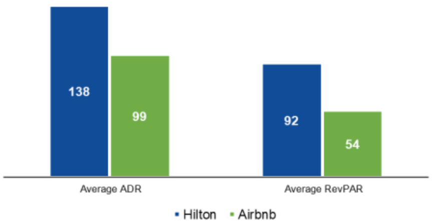
The Travel and Hospitality industry's core focus is providing accommodation, while also encompassing a broader range of services within the hospitality sector, such as food and beverage services and event planning. Furthermore, hotels can be categorized into price levels, ranging from economy to luxury, based on amenities and service levels. The scale ascent implies an increase in client comforts, and major industry players often have diverse brand portfolios covering various tiers. Two important characteristics of this industry are its seasonality and volatility. Firstly, hotel revenues fluctuate seasonally and in response to special events, such as the summer or during Christmas and festive moments, resulting in uneven revenue distribution throughout the year. This can make it challenging to predict business performance and may lead to quarterly results falling short of investor expectations. Moreover, the launch of new hotels can be delayed during low seasons, impacting revenues and profitability. Secondly, the hotel's industry is volatile, reacting strongly to changes in

Graph 39: Market Size Hotel Industry by Geography, 2022



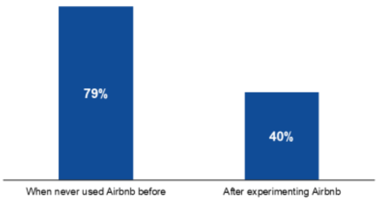
Source: Skift (Travel industry news site)

Graph 40: Hilton's ADR and RevPAR Average vs. Airbnb ($)



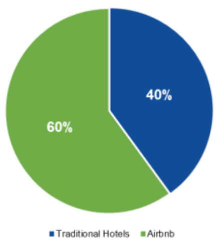
Source: Statista

Graph 41: Preference for traditional hotels of users that have never used Airbnb before vs. after experimenting Airbnb



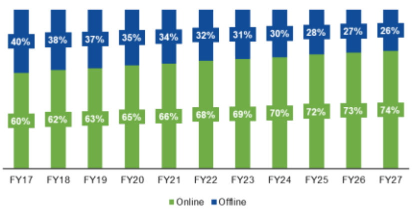
Source: Hotel Tech Report (2022)

Graph 42: Preference for users of both traditional hotels and Airbnb



Source: Statista

Graph 43: Distribution of sales channels in the travel and tourism market worldwide 2017-2027



Source: Statista

key economic indicators, such as real GDP, inflation, and emergence of the middle class. Economic downturns can significantly affect the hotel business, especially for owned or leased properties due to high fixed costs. This leads to earnings declining faster than revenues during economic hardships.

Furthermore, the growth of the hotel industry is closely tied to the expansion of tourism. In recent years, with the significant increase in tourism and international business travel, hotel stays experienced substantial growth. However, in 2020, as a consequence of the Covid-19 pandemic, the industry faced a notable setback (-66%), as mentioned. Hence, in the short term, companies are dedicated to recovering to pre-pandemic levels and grappling with the complexities and threats brought about by the Ukraine-Russia conflict, all the while making investments in further growth. Key industry strategies frequently centre around sustainability, digital innovation, and expansion, either through organic growth or strategic acquisitions. Despite these economic challenges, hotel revenues are projected to grow annually at 3% from 2024 to 2028, achieving a market size of $1 739 billion in 2038 (graph 38). The hotel industry is particularly dominant in the US, Europe, and China, with China showing the fastest growth at a 7.68% CAGR from 2023 to 2027 (graph 39).

Industry Trends

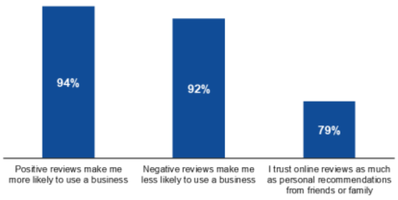
- Alternative Accommodation

Over the last decade, the hospitality industry has undergone a profound transformation propelled by innovative online platforms like Airbnb. This disruption has sparked conflicts with traditional hotels, particularly in the mid-range and economy sectors. Airbnb excels in essential attributes such as affordability and experiential elements, challenging economy hotels, yet falls short when compared to the luxury and upper scale offerings. The International Journal of Hospitality Management highlights the disruptive impact of Airbnb on hotel demand and pricing. On average, Airbnb accommodations are priced 30-60% lower than equivalent hotel rooms, influencing consumer preferences (graph 40). However, while increasing Airbnb prices positively correlate with hotels' RevPAR, higher guest satisfaction scores on Airbnb have a notable negative effect, leading to reduced hotel RevPAR. As seen in graph 41, initially, 79% of users express a preference for traditional hotels, however, once they encounter a vacation rental, this preference diminishes significantly to 40%. Further, Guttentag's study underscores the shift in consumer preferences, with 60% expressing a preference for Airbnb over hotels among those who use both options (graph 42). This dynamic landscape emphasizes the need for the hotel industry to adapt to changing consumer behaviours and the unique value propositions offered by platforms like Airbnb.

- Online Booking Platforms

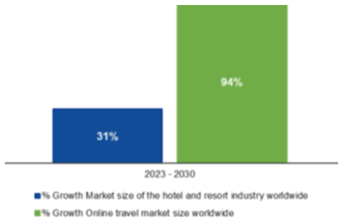
In the hotel industry over the past decade, a prominent and enduring trend has been the proliferation of online booking platforms. These platforms, often referred to as

Graph 44: Online customer reviews' impact on other users' opinion of a local business



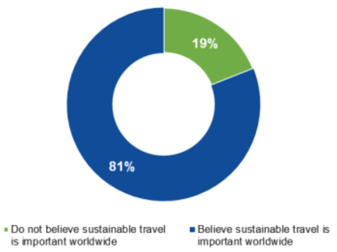
Source: Hilton Annual Reports and International Journal of Hospitality Management (2021)

Graph 45: Expected growth of market size hotel and resort industry vs. online travel market size



Source: Statista

Graph 46: Global travelers who believe in the importance of green travel 2022

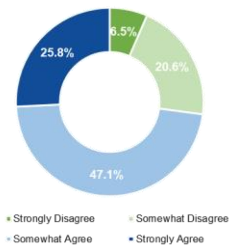


Source: Statista

Graph 47: Key reasons for hoteliers to use technology worldwide 2021

Source: Statista

Graph 48: Share of travelers that would be more likely to stay at a hotel offering self-service technology that minimizes contacts with staff worldwide 2022



Source: Statista

OTAs, serve as third-party websites that aggregate information about various accommodations. They provide customers with a convenient means to compare prices, amenities, and discounts, ultimately enabling travellers to make reservations directly through these platforms, simplifying the decision-making process (graph 43).

The advent of these OTAs has led to a reduction in direct bookings through hotel websites or phone reservations. Consequently, hotels have become increasingly reliant on these platforms, often incurring fees for bookings facilitated through these channels (ranging from 10% to 30% of the reservation cost). Additionally, a significant aspect of this trend is the impact of customer reviews posted on these websites. In 2023, Statista conducted a study wherein 92% of American respondents indicated that their likelihood to purchase a product or service was influenced by negative reviews. When choosing a hotel, travellers heavily consider a property's reputation in the industry, with reviews left by previous guests on OTAs influencing the decision-making process (graph 44). In addition, the Statista Travel and Tourism Report projects that online revenue will grow at a faster rate than the market as a whole (94% vs. 31% growth between 2023 and 2030). This prediction considers the ongoing trend of travellers preferring to make their reservations via online booking platforms (graph 45).

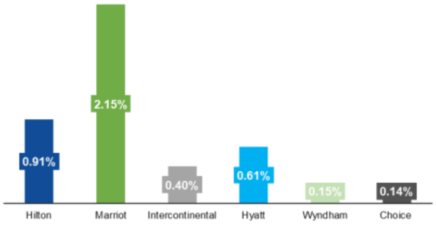
- Sustainability

In recent years, there has been a noticeable shift in society towards greater environmental awareness, which has had a significant impact in the hotel sector. In 2022, 78% of Booking.com "The Sustainable Travel" survey participants expressed the intention to choose sustainable accommodations at least once in the upcoming year, witnessing a notable rise from 65% in 2017. Therefore, in 2022, only 19% of travellers don't believe in the importance of sustainable travel according to graph 46. Hence, there has been a notable increase in the number of sustainable hotels.
Hilton is, therefore, placing sustainability at the core of their operations, aligning with its ESG strategy, "Travel with Purpose". The aim of this strategy is to promote responsible travel and tourism on a global scale. Efforts encompass cutting the use of plastics, switching to energy efficient LEDs, offering on-site electric vehicle charging, and providing eco-friendly alternatives. Notably, in 2022, Hilton proudly unveiled the first net-zero hotel in the United States - Tapestry Collection by Hilton.

- Technology

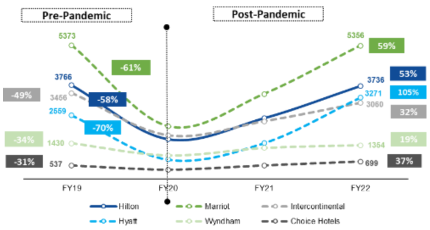
The COVID-19 pandemic has prompted an increased reliance on technology to minimize unnecessary in-person interactions with guests. Embracing this technological shift holds the potential to not only retain existing guests but also attract new ones, improving their experience (graph 47). Consequently, investments in contactless technology have emerged as a pivotal strategy, reinforcing the hotel's dedication to ensuring guest safety. This trend aligns with insights from a Skift survey, where 73% of travellers expressed a higher likelihood of choosing hotels equipped with self-service technology in the future to minimize contact with staff (graph 48). This reduces staff time on routine tasks, addressing staff shortages. However, with technological growth

Graph 49: Market Share (Hilton vs. Peers)



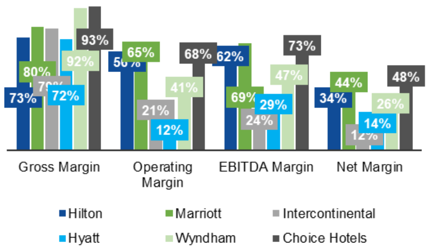
Source: Companies Annual Reports and Marketline

Graph 50: Revenues Evolution and respective CAGR (Hilton vs. Peers)



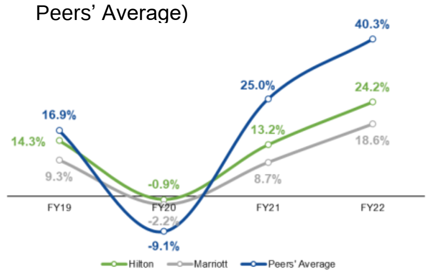
Source: Companies Annual Reports

Graph 51: Profitability Margins (Hilton vs. Comparables), 2022



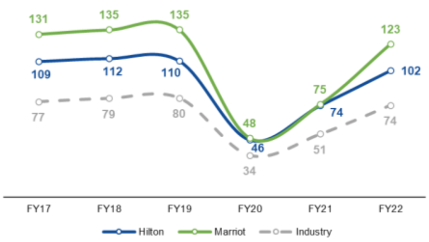
Source: Companies Annual Reports

Graph 52: ROIC Evolution (Hilton vs. Peers' Average)



Source: Companies Annual Reports

Graph 53: RevPAR Evolution (Hilton vs. Comparables) in $



Source: Companies Annual Reports

comes the challenge of cybercrime. Hotels are expected to invest more in cyber resilience to prevent data breaches, learning from incidents like those that happened in 2015 after Starwood data breach.

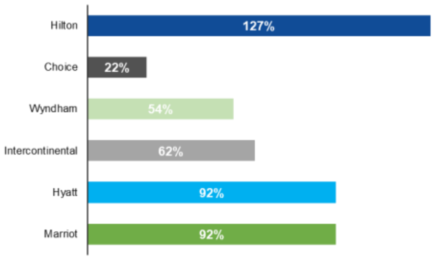
Competitive Set

In the dynamic landscape of the hospitality industry, the significance of competition cannot be overstated. Considering crucial elements like primary business focus, market cap, geographical coverage, and the quantity of properties, Marriott, Hyatt, Intercontinental, Wyndham, and Choice Hotels were chosen as Hilton's equivalents. Regarding market share, Hilton has solidified its position, capturing an impressive 1% share of the total global hotel industry revenues in FY22. This accomplishment establishes Hilton as one of the prominent leaders in a sector characterized by significant fragmentation. However, even when combining the revenues of other noteworthy competitors, it proves insufficient to surpass Marriott's commanding share of 2.2%, solidifying Marriott as the largest player in the industry (graph 49). An analysis of revenue evolution reveals that both Marriott and Hilton exhibited the slowest CAGR between 2017 and 2019 compared to their counterparts. This can be attributed to their already established and consolidated market positions, presenting challenges for significant revenue increments during this period.
However, in FY22, the proliferation of the COVID-19 pandemic took a toll on Hilton, making it one of the most affected players in the sector, experiencing a substantial decrease in revenues, approximately 58%. In contrast, companies such as Choice Hotels and Wyndham, employing an almost pure franchising model, proved to be less affected by the pandemic. Looking beyond the pandemic, the majority of industry players registered robust growth, with Hilton and Marriott achieving an impressive CAGR higher than 50%, only behind Hyatt, which outpaced them all with a remarkable 105%. This underscores a notable recovery and resurgence in the post-pandemic period for key players in the global hotel industry (graph 50).

Nevertheless, the firm still shows to have strong margins compared to the industry, finding itself only behind Marriott and Choice (69% and 73% EBITDA margin respectively), as seen in graph 51. Marriott is Hilton's main competitor as said before while Choice is one of the main competitors to have almost fully adopted the asset-light strategy with little to no ownership of hotels. Further, Marriott's recovery in 2021 surpassed Hilton's, albeit misleadingly, as intangible values such as Brands heavily influenced return indicators without representing recurrent cash investments.

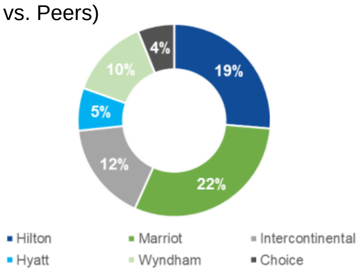
Moreover, regarding value creation metrics such as ROIC, Hilton (24%) is performing better than most of its main competitors (19% for Marriott for example), apart from IHG who have significantly low invested capital due to large liability level compared to their assets, and Choice, who although has a similar ratio in FY22 (24.7%) has had kept that level of ROIC mostly historically constant apart from FY20. This fact that Choice has constantly showed above average ROIC shows once more the efficiency of their differentiated strategy (graph 52).

Graph 54: Global System Room Growth 2007-2022 (Hilton vs. Peers)



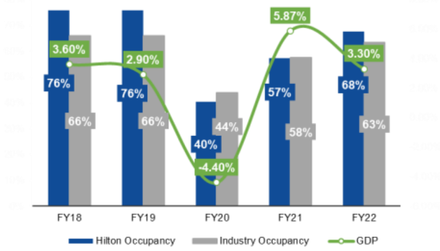
Source: Companies Annual Reports

Graph 55: Nº of rooms in the Global Development Pipeline in 2022 (Hilton vs. Peers)



Source: Companies Annual Reports

Graph 56: Real GDP Evolution Worldwide vs. Hilton and Industry Occupancy Rates evolution

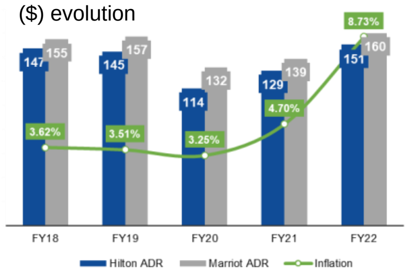


Source: Companies Annual Reports and IMF

Graph 57: Real GDP Evolution (Worldwide vs. US)

Source: IMF

Graph 58: Inflation Evolution Worldwide vs. Hilton and Marriott ADR ($) evolution



Source: Companies Annual Reports and IMF

When considering three key performance indicators, occupancy rate, ADR, and RevPAR, Hilton and Marriott consistently outperformed its competition. Despite Hilton maintaining a higher occupancy rate (68% vs. 57% in FY22), Marriott's ability to charge the highest daily rates (151$ vs. 160$ FY22) has led to sustained leadership in RevPAR (102$ vs. 123$ in FY22). This trend, observed since 2017, underscores Marriott's market-leading position and bargaining power in pricing (graph 53).

As of the conclusion of FY22, Hilton stands out with an expansive development pipeline, boasting nearly 2 821 hotels, the majority of which are already in various stages of construction. These properties are slated to be seamlessly integrated into Hilton's system over the next six years. Notably, Hilton holds the industry's second-largest development pipeline, set to introduce an impressive 430,000 rooms. The company has demonstrated the highest growth in its global system room (127%) among competitors from 2007 to 2022 (graph 54).

In a landscape dominated by key industry players, Hilton, Marriott, Hyatt, InterContinental, Wyndham, and Choice, collectively spearhead 71% of all global pipeline projects. Hilton, although trailing behind Marriott (22%), commands a significant 19% share of the total rooms (graph 55). This underscores Hilton's substantial presence and growth trajectory within the competitive hospitality industry, positioning it prominently among the industry leaders.

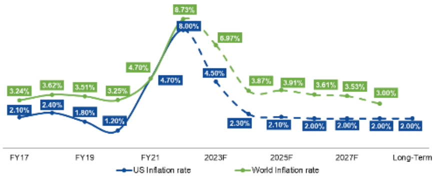
Revenue Main Drivers

- Gross Domestic Product, Inflation and World Population

The performance of the hospitality sector is intrinsically tied to the overall economic landscape, revealing a strong correlation between the demand for hotel rooms and fluctuations in GDP. In periods of economic expansion, the upswing in GDP aligns with increased wealth, fostering a heightened willingness to spend on travel. Conversely, during economic downturns, individuals tend to postpone non-essential expenditures, resulting in a decline in demand for hospitality services. This trend can be identified in graph 56, since the decline in occupancy rate of both Hilton and industry aligns with the negative growth of GDP in this period, however not responsible for all the reduction. Projections from the International Monetary Fund indicate real worldwide GDP growth rates over 3% in the coming years, aligning with long-term economic growth estimates. Specifically focusing on the United States, a pivotal operational hub for Hilton, forecasts suggest an average annual growth of around 1.8% in the long run (graph 57).

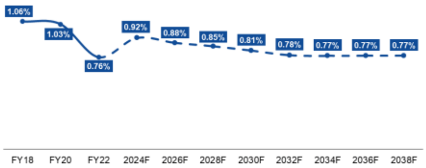
Moreover, hotels may quickly adjust their rates in reaction to changes in inflation as their services are temporary and have short lease terms. Bram Gallagher's (2022) study examined the relationship between inflation and hotel performance measures concluding that in times of elevated consumer price growth, hotels tend to make significant rises in ADR, whereas they adopt a more cautious strategy during periods of lower inflation. Essentially, hoteliers demonstrate an expert ability to pass on

Graph 59: Inflation Evolution (Worldwide vs. US)



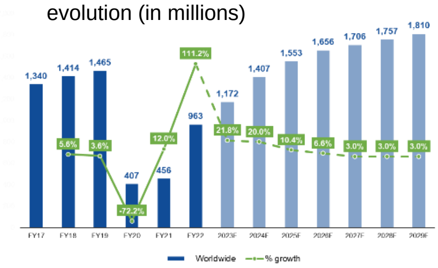
Source: IMF

Graph 60: World Population Growth Evolution



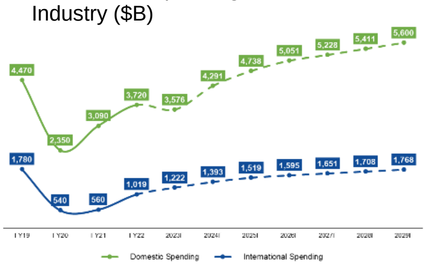
Source: IMF

Graph 61: International tourists arrivals evolution (in millions)



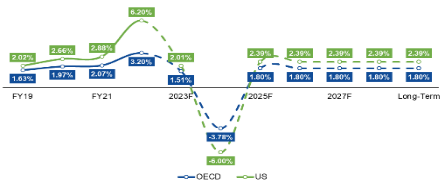
Source: Statista

Graph 62: Domestic spending vs. international spending in the Travel Industry ($B)



Source: Statista

Graph 63: Household Disposable Income Growth Evolution (OECD vs. US)



Source: Statista

increased costs to consumers successfully when faced with high inflationary conditions. Moreover, the findings verified a more statistically significant relationship between inflation and Luxury's hotel returns. Indeed, luxury hotels appear to directly capitalize on inflation, using it as a reason to elevate prices for a clientele that is less sensitive to costs. The continuity of this pattern is supported by graph 58, illustrating a correlation between the fluctuations in Hilton and Marriott's ADR and the observed variations in the inflation rate. Therefore, a more persistent inflation scenario than initially anticipated, with consumer price indexes going to historical levels, can present an opportunity for Hilton and its franchisees to enhanced returns, particularly in those chain scales. Projections suggest that global long-term inflation is anticipated to hover around 3% annually, as indicated by the IMF (graph 59).

The expansion of the middle class, driven by population growth and a rising inclination for travel, plays a pivotal role in the flourishing hospitality services sector. Between 2017 and 2022, the global population experienced a CAGR of +0.96%, culminating in a total of 7 950 billion in 2022. Looking ahead, the IMF anticipates a CAGR of +0.82% for the years 2023-2038. Projections indicate that by 2038, the global population is poised to reach 9 092 billion (graph 60).

- International Tourists Arrivals and Household Disposable Income

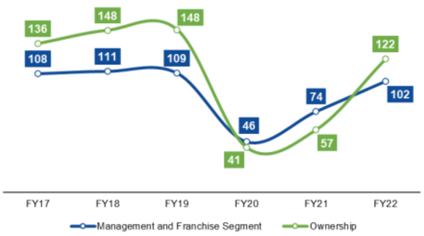
Travel and Tourism (T&T) plays a pivotal role in driving demand for hotels, influencing both domestic and international mobility, as well as visitor expenditures. Over the period from 2000 to 2019, international tourist arrivals demonstrated robust growth at a CAGR of 4.12%. However, in 2020, due to widespread travel restrictions, there was a staggering decline of 1 billion international tourist arrivals, representing a remarkable 72% annual decrease (graph 61). This resulted in an unprecedented 64% drop in international visitor spending, while domestic visitor spending also contracted by 47% (graph 62). Although 2021 saw a modest recovery with a 3.7% increase in international spending, the United Nations World Tourism Organization (UNWTO) anticipates that a full recovery will not be realized until 2024. The growth in visitor spending reflects a shift, with domestic spending surpassing international spending in 2021, growing by 31.4%. However, in 2022, the World Travel and Tourism Council (WTTC) projects that both domestic and international spending will continue to rise (3.5% annually), which is attributed to the easing of restrictions in various destinations.

Hence, this is also a consequence of a rise in household disposable income, which translates to increased financial resources for families to allocate towards various goods and services, including leisure travel. However, in 2020, despite the upswing in HDI (graph 63), there was a notable decline in household spending, attributed to Covid-19 restrictions. Additionally, the recent conflict in Ukraine has led to a surge in commodity prices, contributing to a global rise in consumer price inflation. Thus, this escalation is expected to constrain HDI spending on non-essential expenses, such as travel, in the upcoming years.

Graph 64: Hilton's RevPAR vs. Industry RevPAR evolution ($)

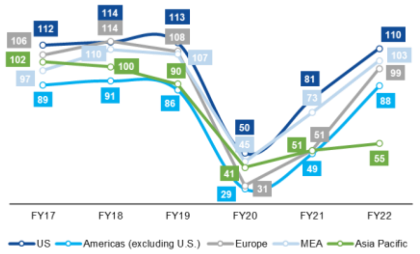
Source: Company Annual Reports and Statista

Graph 65: Hilton's RevPAR evolution by Segment ($)



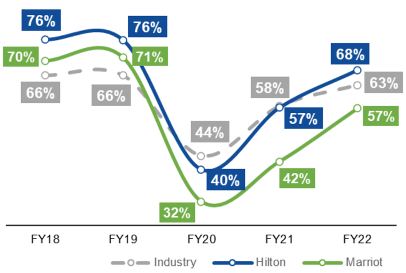
Source: Company Annual Reports

Graph 66: Hilton's RevPAR evolution, by region ($)



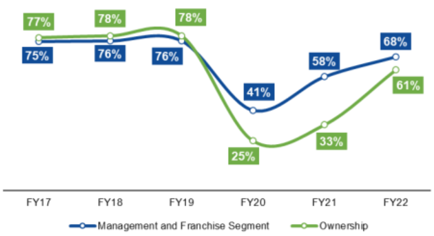
Source: Company Annual Reports

Graph 67: Hilton's Occupancy Rate vs. Industry Evolution



Source: Companies Annual Reports

Graph 68: Hilton's Occupancy Rate Evolution by Segment



Source: Company Annual Reports

▪ Revenues per Available Room (RevPAR)

Revenue per available room (RevPAR) is a critical metric in the hospitality industry and it is calculated by multiplying the hotel's occupancy rate by its average daily room rate (ADR). A higher RevPAR in comparison with the industry (102$ vs. 74$ in FY22) as we can observe in graph 64 is indicative of Hilton's better successfully maximizing revenue from its available rooms.

Regarding the RevPAR across Hilton's business segments, it is evident that the ownership segment consistently reports higher values compared to the management and franchise segment. This can be attributed mainly to the implementation of higher average daily rates in owned hotels, aimed at compensating for the substantial investments made by the company in this segment to uphold brand standards. Before the advent of the pandemic, RevPAR remained relatively stable across all segments. However, in 2020, it experienced a significant downturn, reaching a nadir. By the close of 2022, there was a notable recovery in this metric. Management and Franchise segment achieved a value of $102 (reflecting a 120% increase between FY20 and FY22). Simultaneously, the Ownership segment saw an increase to $122 (representing a 199% growth between FY20 and FY22). While this marked a considerable recovery, RevPAR had not yet returned to its 2019 year-end levels, and a full restoration is expected by 2023 in both segments (graph 65).

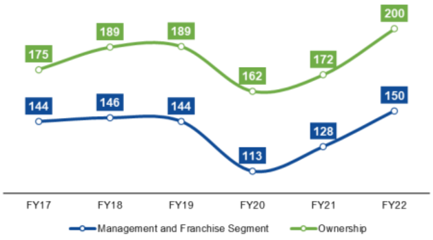
In the context of geographical regions, the US market stands out as the most profitable, representing the sole segment with a RevPAR surpassing the overall company average. Nonetheless, the challenges encountered in 2020 resulted in a substantial decline in RevPAR across all regions. Europe experienced the most significant impact, with a staggering 71% reduction in this performance metric. Furthermore, the Asia Pacific region continues to face difficulties in returning to pre-pandemic RevPAR levels, remaining notably distant from achieving that benchmark (graph 66).

▪ Occupancy Rate

Hilton's management relies on this measure to evaluate the demand for their hotels during a given timeframe and to establish appropriate ADR pricing in response to shifts in demand. As it is possible to denote in graph 67, Hilton has been capable of securing higher occupancy rates than the general industry, including its biggest rival Marriott.

Hilton had a steady occupancy rate of about 76% in both segments prior to the pandemic. But in 2020, because of the mobility restrictions and temporary closures of some hotels, the occupancy rate fell to an all-time low. A notable increase in demand was observed in 2021, which was primarily a result of the progressive relaxation of regulations. As a result, the Management and Franchise segment recorded an astounding 68% occupancy rate in FY22, a 67% increase over FY20. In the meantime, the Ownership segment recorded an occupancy rate of 61%, which represents a significant 142% increase (graph 68). However, its recover was more slowly, with 67% of its rooms situated in Europe, where demand fell off more sharply.

Graph 69: Hilton's ADR evolution by Segment ($)



Source: Company Annual Reports

Graph 70: Hilton's ADR evolution vs. Marriott ($)

Source: Company Annual Reports

- Average Daily Rate (ADR)

ADR is a metric that indicates the average room price. Historically, the ADR demonstrated a degree of stability, maintaining levels of approximately $185 in the Ownership segment and $144 in the Management and Franchise segment until the year 2020. However, the dynamics shifted that year, resulting in a decline, with ADR falling to $162 in the Ownership segment and $113 in the Management and Franchise segment, primarily attributed to reduced occupancy rates. As of the year-end in 2022, there was a noteworthy resurgence in ADR within the Management and Franchise segment, surging to $150, reflecting a substantial 32% growth compared to the FY20. Similarly, the Ownership segment reported an ADR of $200, indicating a robust 24% increase relative to the FY20 (graph 69).

Broadly speaking, while Hilton consistently achieved a higher occupancy rate during the analysed time frame, Marriott demonstrated the ability to command the highest daily room rates (graph 70). Between FY19 and FY22, Marriott, leveraging its considerable bargaining power, successfully charged an average of $12 more per room sold than Hilton. Therefore, despite Hilton's competitive occupancy rates, this price differential is significant enough for Marriott to maintain the highest RevPAR. This trend contributes to Marriott's sustained position as a market leader.

Table 2: Management's Segment Example of Revenue Forecast Model

(in million dollars, as of 31st Dec)	FY17	FY18	FY19	2037F	2038F
Management and Franchise Segment	**1,867**	**2,086**	**2,243**	**7,577**	**7,974**
% growth		11.7%	7.5%	5.3%	5.2%
Managed Hotels					
Total US Managed Hotels Gross Revenue	3,593	3,662	3,510	5,982	6,144
% managed us room weight	43.6%	42.1%	39.9%		
RevPAR	**110**	**111**	**110**	**177**	**181**
% growth		1.6%	(1.7)%	2.1%	2.1%
Occupancy	**76.3%**	**76.3%**	**76.2%**	**85.5%**	**85.5%**
% growth		0.0%	(0.1)%	0.0%	0.0%
World Population		1.1%	1.0%	0.8%	0.8%
Weight world population		40.0%	45.0%	60.0%	60.0%
US Domestic Spending				1.8%	1.8%
Weight US Domestic Spending		40.0%	40.0%	37.0%	37.0%
All Other Regions International Spending				3.7%	3.7%
Weight All Other Regions International Spending		20.0%	15.0%	3.0%	3.0%
% weighted growth				1.2%	1.2%
ADR	**144**	**146**	**144**	**207**	**212**
% growth		1.6%	(1.5)%	2.1%	2.1%
US Market Size		4.4%	2.5%	2.0%	2.0%
Weight US Market Size		35.0%	30.0%	40.0%	40.0%
US GDP Real Growth	2.2%	3.0%	2.3%	1.8%	1.8%
Weight US GDP		60.0%	60.0%	30.0%	30.0%
US Household disposable income	2.0%	2.7%	2.9%	2.4%	2.4%
Weight US Household disposable income		5.0%	10.0%	30.0%	30.0%
% weighted growth		3.5%	2.4%	2.1%	2.1%
Nº of Rooms	**90,812**	**90,749**	**88,398**	**92,374**	**92,961**
% growth		(0.1)%	(2.6)%	0.6%	0.6%
Projected managed Hilton nº room growth		(0.1)%	(2.6)%	0.4%	0.4%
Weight Managed US Rooms		70.0%	60.0%	80.0%	80.0%
Number of international tourist arrivals in US		3.3%	(0.4)%	2.0%	2.0%
Weight US international tourist arrivals		25.0%	30.0%	15.0%	15.0%
World Population		1.1%	1.0%	0.8%	0.8%
Weight world population		5.0%	10.0%	5.0%	5.0%
% weighted growth		0.8%	(1.6)%	0.6%	0.6%
Total All Other Managed Hotels Gross Revenue	4,646	5,032	5,289	23,581	25,318
% All Other regions revenue weight	56%	58%	60%		9.5%
RevPAR	**103**	**108**	**106**	**188**	**192**
% growth		4.7%	(1.9)%	1.3%	1.3%
Occupancy	**71.7%**	**74.0%**	**73.7%**	**85.6%**	**85.6%**
% growth		3.1%	(0.4)%	0.0%	0.0%
World Population		1.1%	1.0%	0.8%	0.8%
Weight world population		40.0%	45.0%	80.0%	80.0%
All Other Regions Domestic Spending				3.9%	3.9%
Weight All Other Regions Domestic Spending		40.0%	40.0%	15.0%	15.0%
US International Spending				1.8%	1.8%
Weight US International Spending		20.0%	15.0%	5.0%	5.0%
% weighted growth				1.3%	1.3%
ADR	**144**	**146**	**144**	**220**	**225**
% growth		1.6%	(1.5)%	2.3%	2.3%
Market Size All Other regions		9.3%	3.3%	3.3%	3.3%
Weight All Other regions Market Size		35.0%	30.0%	10.0%	10.0%
World GDP Real Growth	3.9%	3.6%	2.9%	3.5%	3.5%
Weight World GDP		60.0%	60.0%	20.0%	20.0%
OECD Household disposable income	1.6%	2.0%	2.1%	1.8%	1.8%
Weight OECD Household disposable income		5.0%	10.0%	70.0%	70.0%
% weighted growth		5.5%	2.9%	2.3%	2.3%
Nº of Rooms	**117,423**	**124,688**	**133,217**	**343,622**	**360,694**
% growth	6.4%	6.2%	6.8%	5.0%	5.0%
Projected managed Hilton nº room growth		6.2%	6.8%	5.6%	5.6%
Weight Managed All Other regions Rooms		70.0%	60.0%	80.0%	80.0%
Number of international tourist arrivals in All Other regions		5.7%	3.9%	3.1%	3.1%
Weight All Other regions international tourist arrivals		25.0%	30.0%	15.0%	15.0%
World Population		1.1%	1.0%	0.8%	0.8%
Weight world population		5.0%	10.0%	5.0%	5.0%
% weighted growth		5.8%	5.4%	5.0%	5.0%
Total Managed Hotels Gross Revenue	8,239	8,695	8,799	29,563	31,462
% growth		5.5%	1.2%	6.4%	6.4%
Base and other management fees rate	4.6%	4.4%	4.5%	4.0%	4.0%
% growth		(3.7)%	1.1%	0.0%	0.0%
Base and other management fees	379	385	394	1,194	1,271
% growth					
Amortization of contract acquisition costs	(12)	(20)	(19)	(17)	(17)
% growth					
Intersegment elimination	(43)	(44)	(43)	(134)	(143)
% Total Base and other management fees	(11.3)%	(11.4)%	(10.9)%	(11.2)%	(11.2)%
Total Base and other management fees	**324**	**321**	**332**	**1,043**	**1,111**
Incentive management fees	**222**	**235**	**230**	**724**	**771**

Source: Own Estimates

Valuation

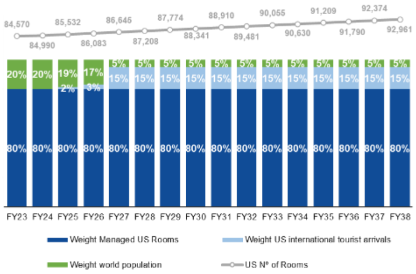
Revenues Forecast

We started our forecast model by estimating the turnover we expect Hilton to reach during the next 15-year period. For that matter, we analysed the revenue drivers mentioned previously, number of rooms, RevPar, ADR and Occupancy. For each driver we then selected 3 main drivers, to which we allocated different weights, reaching a final yearly growth. The RevPar is calculated by multiplying the ADR and the Occupancy, and then by multiplying it by the number of rooms we reach a gross revenue. This exercise was conducted for each main segment of the firm in both the US and All Other Regions, whereas the Other Revenues segment was computed using the historical percentage of the main source of income from each other segment.

Starting with the number of rooms, the first thing to do was to analyse Hilton's intentions for the future. For that purpose, we estimated the room additions by segment throughout the forecasted period and, in each segment, by region, i.e. US vs All Other. Later, we used 2 other drivers for the final estimation of the room number growth which were the World Population growth along with the growth of the total tourist arrivals in the US and All Other. Both these metrics growths hint to the potential need for a growing hotel room capacity.

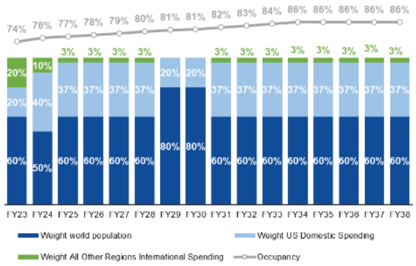
Regarding the ADR, our projections were made based on market size, GDP and Household disposable income. While market size growth would increase demand and

Graph 71: US Nº of Rooms of Management Segment – Revenue Drivers



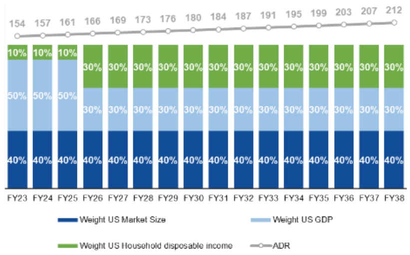
Source: Own Estimates

Graph 72: US Occupancy Rate of Management Segment – Revenue Drivers



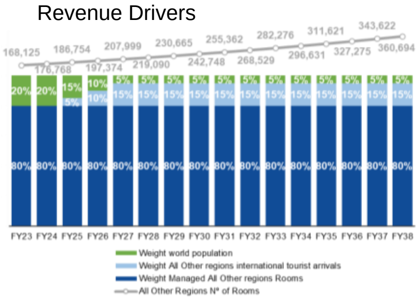
Source: Own Estimates

Graph 73: US ADR ($) of Management Segment – Revenue Drivers



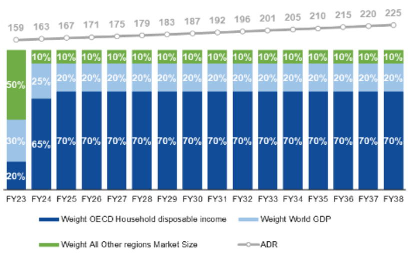
Source: Own Estimates

Graph 74: All Other Regions Nº of Rooms Management Segment – Revenue Drivers



Source: Own Estimates

Graph 75: All Other Regions ADR ($) of Management Segment – Revenue Drivers



Source: Own Estimates

thus increase competition and raise prices, GDP and household income growth would lead to a higher willingness to spend from the part of the consumers.

In what concerns occupation, we took into consideration population growth along with the region's domestic spending and the outside's international spending. Thus, assuming that with larger spendings and larger population, Hilton would be able to capture more clients and increase its occupation ratio. We further assumed that no segment should exceed c.85% in occupation as we feel it would be unrealistic to assume constant growth as hotels need a margin for room cleaning and other logistics which prevent them from achieving higher levels of occupation. As pre Covid levels of occupancy were c.76%, this assumption suggests an increase in efficiency of logistics.

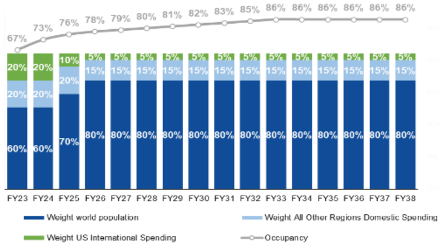
Further, the multiplication of RevPAR and total rooms gives the segment's gross revenue by geography which summed gives the total segment's gross revenue. The applicable costs and fees, based on historical data are then subtracted to reach each segment's total revenues for Hilton (Table 2 illustrates this process).

- ## Management Segment

In the Management segment, the number of US rooms had a decreasing trend until 2021, which brought our expectation for Hilton's projected room number to a steady addition of 330 rooms per year throughout our forecast, which equals 2022 room additions. However, when considering the other drivers, namely the number of tourist arrivals in the US and world population growth, the final prediction ended up increasing. The number of tourist arrivals in the US is still largely influenced by the COVID downfall and thus we barely attribute any weight to it until it stabilizes in 2027, a rational applicable to all segments and geographies. Moreover, we predict the long-term growth for room number to round 0.6% from 2027 onwards reaching 92 961 rooms by 2038 (graph 71). A similar process is predicted for Occupancy as the pandemic rules in the last couple years brought the industry's numbers down. Hence, as both world international and US Domestic spending increase to normal values, the initial growth of occupancy is somewhat high but rapidly stabilizes at around 1%. However, as mentioned before we predict it to cease to grow in 2034 at 85.5% (graph 72). On the other hand, the ADR is already predicted to have a steady growth at around 2% year on year, reaching values of above 200$ in the final years of the forecast (graph 73). The latter two combine to show a RevPAR growth of c.3% from FY25 onwards and later c.2% in the steady state. These drivers lead to a total US Managed gross revenue of $6,144 million (graph 77), showing a 3.8% CAGR.

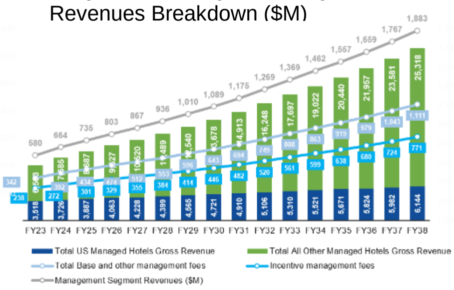
Regarding All Other Regions, the room growth shows to be higher, at c.5% year on year growth, mainly because of its historical trend where one can observe an average of 6.4%. Hence, we expect the number of rooms to reach values above 300k from 2035 onwards and end up around 360 694 by 2038 (graph 74). The ADR and Occupancy follow a similar trend to the US, showing long-term growths of c.2.3% for ADR, reaching 225$ (graph 75) by the end of the forecast while Occupancy stabilizes

Graph 76: All Other Regions Occupancy Rate of Management Segment – Revenue Drivers



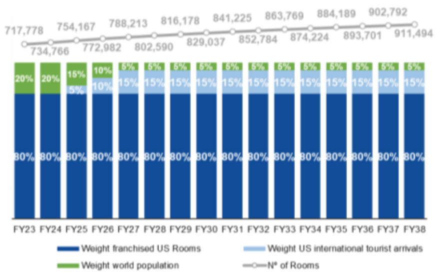
Source: Own Estimates

Graph 77: Management Segment Revenues Breakdown ($M)



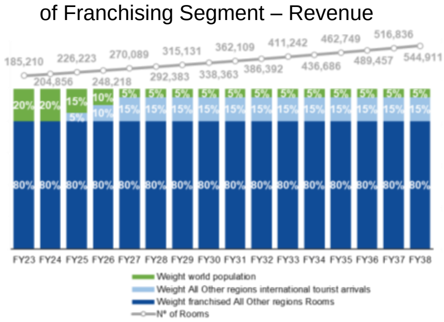
Source: Own Estimates

Graph 78: US Nº of Rooms of Franchising Segment – Revenue Drivers



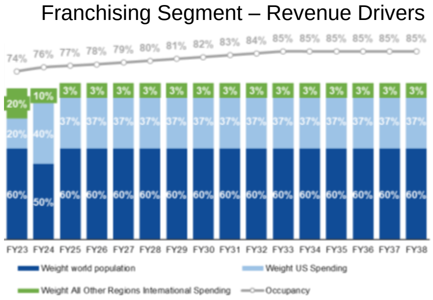
Source: Own Estimates

Graph 79: All Other Regions Nº of Rooms of Franchising Segment – Revenue



Source: Own Estimates

Graph 80: US Occupancy Rate of Franchising Segment – Revenue Drivers



Source: Own Estimates

at 85.6% (graph 76). The ADR outside the US is expected to grow more than in the US, even though we could not discriminate for historical performance, due to larger growths of the market size along with GDP. All these factors compound into a gross revenue of $6 503 million in FY23 which doubles by FY32 ($16 248m) and triples by FY38 ($25 318m) – graph 77.

Further, we assumed the Base and Other Management fees rate to stay constant at the historical average of 4.0%, a slight growth from 2022 which may have still been influenced by Covid. The Amortization of contract acquisition costs was assumed to stay constant at the historical average of -$17m. On the other hand, the intersegment elimination seemed to be somewhat constant as a percentage of base and other fees before 2020, hence, we assumed it to stay proportionally equal the historical average of -11.2% of base and other management fees. By 2038 Total Base and other management fees equalled $1 111m while incentive management fees equalled $771m as they were assumed to be a percentual part of the prior, where once more a historical average, excluding Covid affected years, was assumed (graph 77).

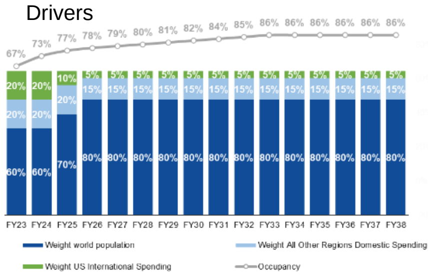
- Franchising Segment

Regarding the firm's largest segment, the franchising one, both geographies have been seeing healthy Revenue growths. However, while US's room number increase has been stabilizing with its momentum slowing down, reaching a predicted long-term growth of -7.1% for room additions, the same cannot be said about the All-Other market. In this case, the room additions have been increasing at an average rate of 8.4% historically. Hence that was the growth we predicted for the short run, whereas in the long run we assumed the growth to slow down and stabilize around 5% year on year growth. This way, the projected number of rooms in the rest of the world go from c.19% of the total franchising rooms in 2022, to almost 43%. Moreover, when adding the effects of the other room number drivers, for which the rational was similar to the management segment, we reach long-term growths of c.1% and c.5.5%, respectively. This leads to predicted number of rooms of 911 494 (62.6% of predicted franchise rooms) for the US and 544 911(38,4%) for the rest of the world, showing the other drivers bring the growths of the two geographies closer together (graphs 78 and 79).

Regarding ADR and occupation, the same rationale from the management was used, reaching LT occupations of 85.2% (US) and 85.7% (All Other), and LT ADR growth of 2.0% (210$ in 2038 for the US) and 2.8% (224$ in 2038 for All Other). Once again, the ADR drivers lead to larger growths outside the US rather than inside (graphs 80 to 83).

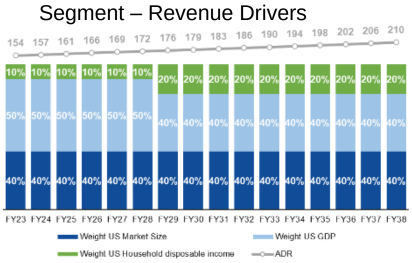
This way, we reach total US gross revenues of $29 857 million in 2023 which grows to $59 441 million by 2038 showing a 4.7% CAGR. Whereas for the rest of the world, the value rounds $7 247 million in 2023 and $38 227 million in 2038F, leading to a 11.7% CAGR (graph 84). The difference in growth is easily explained by the difference in investment and thus growth in the room number across the years. As Hilton is much

Graph 81: All Other Regions Occupancy Rate of Franchising Segment – Revenue Drivers



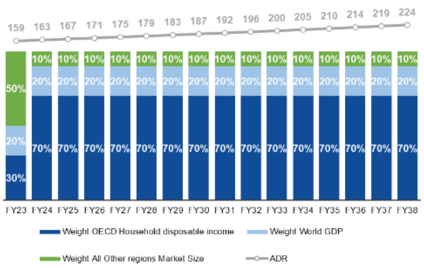
Source: Own Estimates

Graph 82: US ADR ($) of Franchising Segment – Revenue Drivers



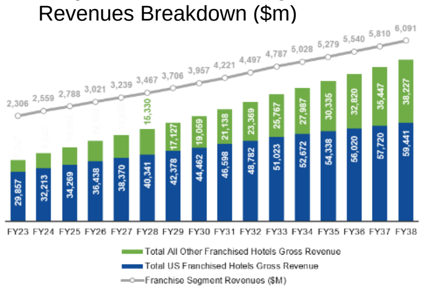
Source: Own Estimates

Graph 83: All Other Regions ADR ($) of Franchising Segment – Revenue Drivers



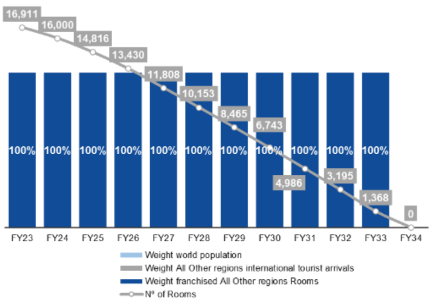
Source: Own Estimates

Graph 84: Franchise Segment Revenues Breakdown ($m)



Source: Own Estimates

Graph 85: Total Nº of Rooms of Ownership Segment – Revenue Drivers



Source: Own Estimates

better established inside the US, it is logical that their main source of growth in the future relies strongly on their international growth as they make efforts to expand.

Royalty Fees rate were assumed to be constant as a historical average of gross revenue (6.2%), leading franchise and licensing fees to grow with the latter. Amortization of contract acquisition costs were once more assumed to equal historical average of -$13m. This way, for 2038, with the total gross revenue at $97 668m, we predict total franchise and licensing fees to equal $6 091m (graph 84). This would mean the franchise subsegment would amount to 76.4% of the Management and Franchise segment, while the Management subsegment would amount to the other 23.6%, meaning the two subsegments are slightly closer to one another than in 2022 where the percentages were 80.8% and 19.2% respectively.

- Ownership Segment

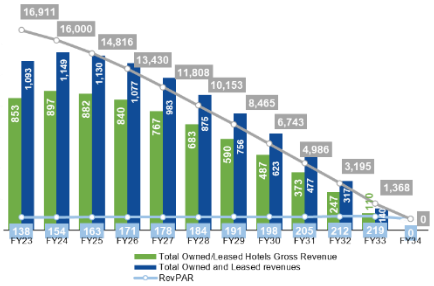
Unlike the previously mentioned segments, the ownership one has not been growing lately as a clear disinvestment in this segment can be seen. In fact, the number of rooms in the rest of the world has already been decreasing in recent history. Thus, this trend was continued in our provision for the future. However, even with a constant decrease in the number of rooms in the segment, the gross revenues slightly increase through the first 2 years forecasted. This can be explained by the increase in Occupation which is projected to increase following the end of the pandemic along with an assumption of improved efficiency and larger demand common to the other segment. Additionally, the ADR is predicted to be higher in the Ownership segment than the others as it has already been higher in recent years due to the chain scale of its hotels. However, as Hilton keeps moving towards the asset light business model, we predict the ownership segment to completely cease to exist by 2034 when the firm enters the steady state period (graph 85). This means the Gross Revenue decreases constantly along with the other source of revenue from the segment, other ancillary goods services. This way, in 2024 we expect the segment to show the largest total revenues since 2019 at $1 149m before decreasing until it reaches $0 in 2034 (graph 86). We believe this is a feasible outcome since the same outcome was seen in the US a few years back and, bearing that the Ownership segment is the less profitable one and the riskiest, it is logical for Hilton to focus solely on the M&F segment.

- Other Revenues Segment

The final segment is the smallest one and, due to its small size and lack of available assumptions for the future, we assumed it to grow with the overall business, representing a percentage of Franchise and licensing fees plus Base and other management fees, Incentive management fees and owned and leased hotels revenues, based on historical data. This way, the Other Revenues segment is projected to reach $231 million in 2038F, showing a 5.2% CAGR (graph 87).

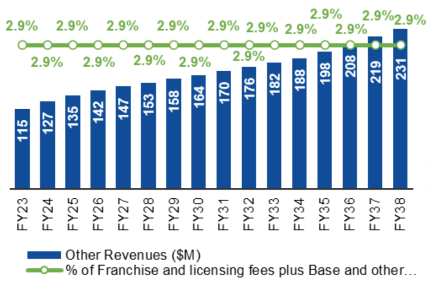
- Revenues Summary

Graph 86: Ownership Segment Revenues Breakdown ($m)



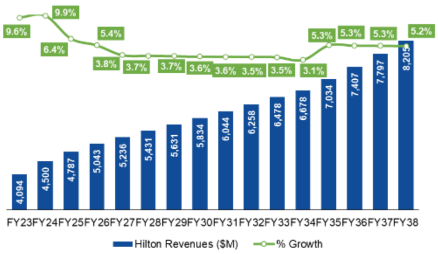
Source: Own Estimates

Graph 87: Other Revenues Segment Evolution ($) and Main Driver



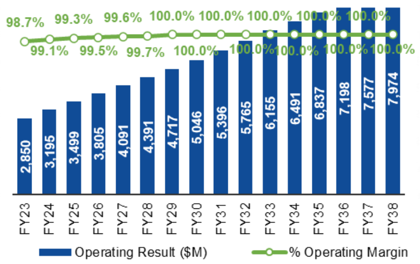
Source: Own Estimates

Graph 88: Hilton's Total Revenues Evolution ($m)



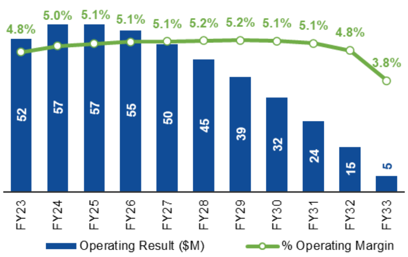
Source: Own Estimates

Graph 89: Hilton's Management and Franchising Segment Operating Performance ($m)



Source: Own Estimates

Graph 90: Hilton's Ownership Segment Operating Performance ($m)



Source: Own Estimates

Hilton's financial outlook showcases a promising trajectory, driven by strategic investments in the Management and Franchising segment as opposed to the Ownership segment. Beginning at $3 736m in FY22, we anticipate a solid CAGR of 4.96%, projecting total revenues to reach $6 678m by FY34. This positive momentum continues with a steady 5.3% CAGR, after the ownership segment disappears, from FY34 to FY38, resulting in an estimated $8 205m in revenue with the Management and Franchising segment consistently dominating the revenue composition, growing from 86.6% in FY22 to a commanding 96.8% by FY38 (graph 88).

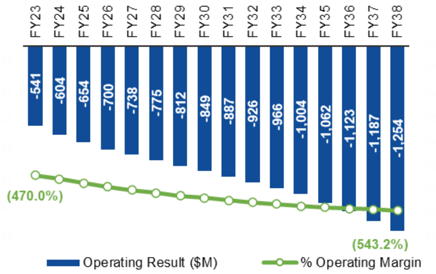
Operating Margins

Advancing in our analysis, we projected the remaining factors impacting Hilton's operating margins. Opting for a segmented approach, we encountered challenges in allocating certain rubrics, such as General and Administrative expenses, Amortization of Other Intangible Assets, partial Depreciation on Property and Equipment, and other items. Due to insufficient information on their distribution across divisions, we assigned them to the "other revenues" segment, potentially influencing the margins of individual segments.

Starting with the Management and Franchising segment, we forecasted the Other Revenues from M&F properties as a percentage of the Gross Revenues as these are expected to be directly linked to the level of activity of the segment's hotels. Moreover, these revenues refer to reimbursements made from hotel owners to Hilton regarding costs the mother firm incurred on during the management of such hotels. The costs associated to these reimbursements are the Other Expenses from M&F properties, which were thus assumed to equal the other revenues talked above as they should eventually cancel out. Hence, these two captions end up not influencing Hilton's margins, nor on operating income. Further, the only other expense that could directly be associated with the segment is the Amortization of Management and Franchise Recorded at Merger, which refers to Intangible Assets recorded at fair value at the time of the merger. These assets have been decreasing in book value due to their limited life expectancy and thus we projected them to, in FY29, completely lose their book value leaving no amortization to be registered. Thus, the amortization of such assets is predicted to decrease before reaching zero in the same year. This way from then on, there are no costs only associated with the M&F segment, leaving the operating margin at 100%, while before it was just shy of that value rounding 99% due to the small Amortization value (graph 89). Nevertheless, one should look at this value with carefulness as there are other costs associated that just could not be discriminated.

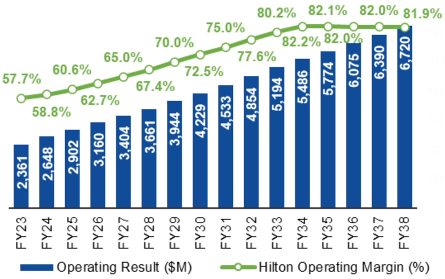
Moving onto the Ownership segment, the two main expenses registered are Depreciation on property and equipment, which, as explained further in the CAPEX section, refers to Depreciation of P&E from all other region, and the Owned and Leased Hotels Expenses which represents the COGS of the segment and were calculated as

Graph 91: Hilton's Other Revenues Segment Operating Performance ($m)



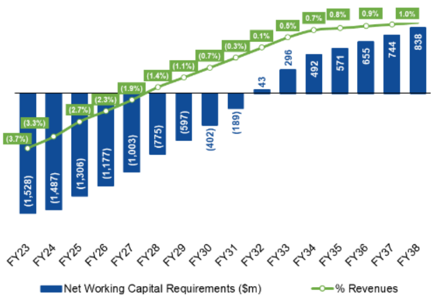
Source: Own Estimates

Graph 92: Hilton's Total Operating Performance ($m)



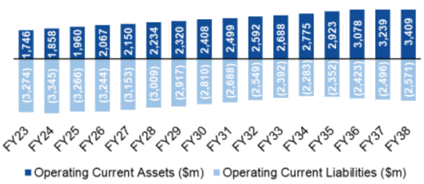
Source: Own Estimates

Graph 93: Hilton's Net Working Capital Requirements Evolution ($m)



Source: Own Estimates

Graph 94: Operating Current Assets vs. Operating Current Liabilities Forecast ($m)



Source: Own Estimates

Table 3: Historical Cash Conversion Cycle (Hilton vs. Marriot vs. Peer's Average)

	Hilton			
	FY19	FY20	FY21	FY22
Average Collection Period	49	65	67	55
Average Payable Period	88	132	247	134
Cash Conversion Cycle Ana	**-29**	**-30**	**-40**	**-67**
	Marriott			
	FY19	FY20	FY21	FY22
Average Collection Period	163	305	212	175
Average Payable Period	200	284	361	254
Cash Conversion Cycle Ana	**-37**	**20**	**-149**	**-78**
	Peers' Average			
	FY19	FY20	FY21	FY22
Average Collection Period	104	189	149	115
Average Payable Period	143	229	286	245
Cash Conversion Cycle Ana	**-38**	**-41**	**-138**	**-130**

Source: Own Estimates

a percentage of the segments revenues equal to 2022 (92%). This way the segments Operation Margin rounds 5% before the segment ceases to exist in 2034 (graph 90).

In the Other Revenues Segment, G&A expenses were forecasted as a historical percentage of total revenues at -13.8%, alike the other expenses at -1.6%. Gains (losses) on foreign transactions, and both other comprehensive income captions were forecasted to stay at a historical average of -$7m, $15m and $19m, respectfully. This way, due to the segments' low revenues and the allocation of system wide expenses, the segment ends up having Operating Margins rounding -540% in the later stages of the forecast (graph 91).

Overall, the company shows an increasing trend for their Operating EBIT margin (57.7% in 2023), as the ownership segment continues to lose weight, before stabilizing in 2034 at c.82%, which is perhaps a better estimation of the actual operating margin from the M&F segment as this is now the only main segment (graph 92).

Net Working Capital Requirements

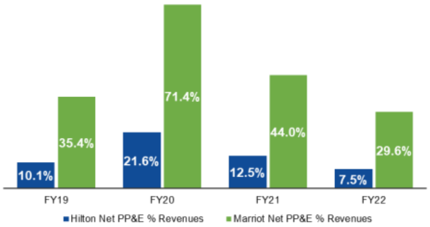
Historically, Hilton shows a negative Working Capital as a result of the weight of the current proportions of both Liability for Guest Loyalty Program and Deferred Revenues, along with the longer payment period allowed from suppliers to Hilton than that allowed from Hilton to its clients (graph 93 and 94). This last topic also allows for Hilton to have a negative Cash Conversion Cycle (table 3) similarly to its competitors. Furthermore, as the Accounts Payable is mostly dependent on the ownership segment and this segment has seen significant disinvestment, we predict Accounts Payable to drastically decrease over the forecasted period leading to positive Net Working Capital.

We estimated Hilton's Operating Cash as 2% of revenues as this is a good proxy for the amount of money the firm should need to run their core business. Restricted Cash and Cash Equivalents was also predicted as a percentage of revenues, however, this time it was based on an historical average between the years analysed. Further, the Current Proportion of Liability for Guest Loyalty Program, along with Current Proportion of Deferred Revenues were calculated as a historical average of their mother rubrics, i.e the total version including current and non-current values. The rest of the accounts of Hilton's NWC Requirements, were calculated as a number of days and mostly forecasted to stay relatively constant.

Capital Expenditures (CAPEX) and Invested Capital

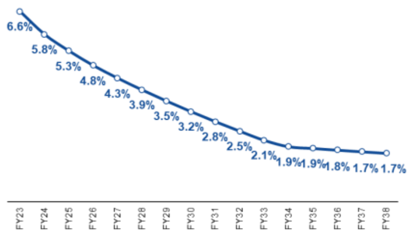
As mentioned before, Hilton has been embracing an asset-light strategy that not only optimizes Hilton's ROIC but also positions the company as a nimble and adaptive player in the dynamic hospitality industry. This can be observed through the firm's PPE as a percentage of their revenue, 7.5% in 2022, which is further projected to continue to decrease. To put it to perspective, Marriott, like other competitors, has a 29.6% ratio, showing a less extremist strategy (graph 95 and 96).

Graph 95: Historical Net PP&E in % of Revenues (Hilton vs. Marriot)



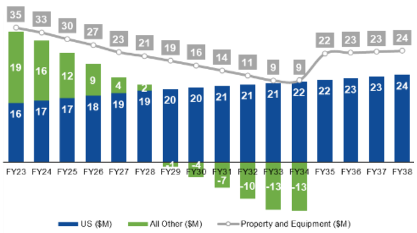
Source: Hilton Annual Report

Graph 96: Hilton's Forecasted Net PP&E in % of Revenues



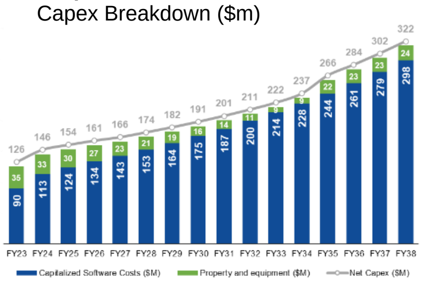
Source: Own Estimates

Graph 97: Hilton's Forecasted PE Breakdown Us vs. All Other Regions ($m)



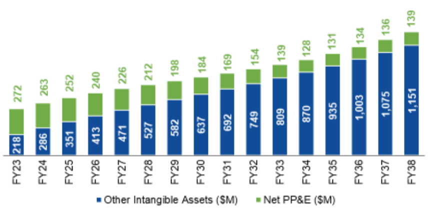
Source: Own Estimates

Graph 98: Hilton's Forecasted Net Capex Breakdown ($m)



Source: Own Estimates

Graph 99: Hilton's Forecasted Other Intangible Assets and Net PP&E ($m)

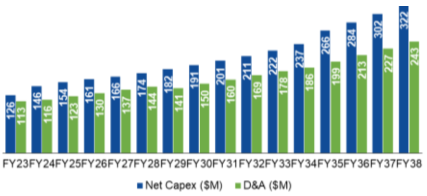


Source: Own Estimates

Moreover, in our attempt to predict the company's CAPEX during the next few years, we took a look at some of the key aspects that can be identified as CAPEX drivers. Hence, we used Hilton's division of CAPEX into Property and Equipment (P&E) expenditures and Capitalized Software Costs. P&E expenditures were historically divided between US and All Other regions, and thus, were also forecasted separately (graph 97). The US side was forecasted to grow at a historical rate before stabilizing to grow at the long-term inflation rate from 2029 onwards. The rationale behind this assumption lies on the fact that, in recent history, there was already owned hotels in the US and PPE was thus assumed to be related to the firm's headquarters. Furthermore, due to the lack of information regarding this topic, it was assumed all headquarters and PPE related to the management of the whole company would be included in the US side of this rubric. This way, the All-Other PPE would include only Owned and leased rooms and would be calculated as a percentage of the latter, while its CAPEX would be the change in PPE plus the depreciation for that region. Hence, we can say that the All-Other P&E CAPEX includes expenses incurred on for maintenance of such assets along with the incomes from the sale of assets that are no longer in use, assumed to be sold at the fair value and, thus, that capital gains would round to zero. This way, we predict All-Other P&E expenses to decrease during the forecast even reaching negative values in the later years, signifying the revenue from asset sales would be larger than the amounts spent in maintenance. On the other hand, in 2023 Capitalized software costs were predicted to grow at a similar rate to 2022, 43.2%, to recover to pre pandemic values by 2025 ($124m), as it stabilizes at historical average rate of 6.9% YoY growth through 2038 (graph 98). This way, the tangible part of CAPEX would not cover Depreciation completely until 2034. However, the intangible side would always compensate for the amortizations, leading total CAPEX to compensating for total D&A expenses allowing for the continuous growth of the company's assets value (graph 99 and 100).

Regarding the Total Liability for Guest Loyalty Program, we calculated it by forecasting the number of members of the program and the value of the liability per member. The number of members has been constantly increasing, and hence, we forecasted it to start growing at a historical pace of g=16%, however, as this growth would not be sustainable forever, we expect it to steadily decrease during the next 6-year span, and later to stabilize at a long-term growth of 1%. This way, we predicted the members to grow from 152m in FY22 to 262m in FY28 and further to 290m by FY38 (table 4). On the other hand, as the liability per member was on a decreasing trend in the last few years, as it takes into consideration the redemption rate which decreases with the increase in members. Thus, we forecasted it to continue decreasing until 2028, reaching a value of $12 where it would stabilize and grow at the long-run US inflation rate of 2%. The current proportion of the liability for guest loyalty program was forecasted to be a stable percentage of the total value, based on historical data (46.3%). However, 2020 was excluded as it was an odd year due to the pandemic, where Hilton changed its conditions on the program, making the current portion

Graph 100: Hilton's Forecasted Capital Expenditures and D&A ($m)



Source: Own Estimates

Table 4: Forecasted Total Liability for Guest Loyalty Program and Total Deferred Revenues ($m)

	Hilton Honors						
(in millions, as of 31st Dec)	FY23	FY24	FY28	FY29	FY32	FY33	FY38
Nº of Members ('000 000)	177	200	262	265	273	276	290
Liability per member ($)	15	14	12	12	13	13	15
Total Liability for Guest Loyalty Program	2,671	2,889	3,176	3,272	3,577	3,685	4,276
Total Deferred Revenues	1,492	1,614	1,774	1,828	1,999	2,059	2,389

Source: Own Estimates

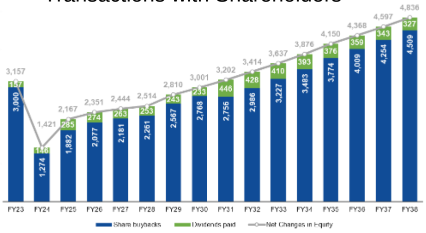
Formula 1: Number of Shares After Shares Buybacks

$$(\#\,new - \#\,old) \times P\,new = SB \Rightarrow P\,new = \frac{-SB}{\#\,new - \#\,old}$$

$$\#\,old \times \mathrm{P\,old} = \mathrm{P\,new} \times \#\,new \Rightarrow \#\,old \times P\,old = \frac{-SB}{\#new - \#old} \times \#\,new \Rightarrow$$

$$\Rightarrow \#\,new = \frac{\#\,old^2 \times P\,old}{\#\,old \times P\,old + SB}$$

Graph 100: Hilton's Forecasted Net Changes in Equity Breakdown ($m) – Transactions with Shareholders



Source: Own Estimates

decrease to 28.5%. Moreover, the Deferred Revenues are mostly linked to the liability guest program and thus we calculated it as a percentage of the latter, based on recent historical data (55.9%).

Considering the other rubrics in the invested capital, we predicted Brands growth to steadily increase until reaching LT world inflation rate from FY30 onwards. Operating lease ROU assets were forecasted to grow with the number of owned and leased rooms whereas Operating DTLs, net of Operating DTAs would be a percentage of revenue, based on historical data. Goodwill was assumed to stay constant.

Regarding transactions with shareholders, as Hilton has been distributing constant dividends along with the share repurchase program started in 2017 and both are expected to continue, we assumed these factors to continue to happen throughout our forecast. This way, we assumed quarterly dividends to stay at $0.15 per share ($0.60 annually which are distributed before the share buybacks) before doubling in 2025 and doubling again in 2031. These increases are expected to happen as an attempt from Hilton to get its value for DPS closer to those from the industry and its competitors, which, along with the share repurchases, is a usual way to give value back to stockholders. Moreover, in 2023 Hilton already announced share buybacks amounting to $3b which increases the budgeted buyback to $4.2b, Thereafter, we assumed it would be the difference between transactions with shareholders and dividends paid. For this calculation, we needed to forecast the number of shares bought back each year in order to know how many would be left outstanding to receive dividends the next year, for which we used the formula 1, using the forecasted MVE. Hence, we arrived at a value of share buyback of $1 274 in 2024, which bought at $189 per share would leave 237.3m shares outstanding (graph 100).

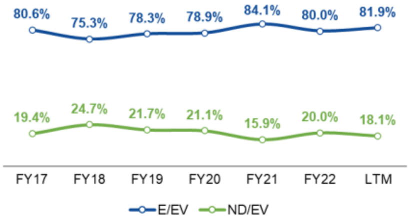
Free Cash Flow (FCF)

With the CAPEX and IC forecasted, we can now move onto the forecast of the free cash flows. FCF growth is the outcome of the combination of the evolution of three fundamental drivers, each playing a pivotal role in the shaping of its financial landscape: substantial business growth, improvement of operating margins, and a reduction in investment requirements as a proportion of turnover. Moreover, with the predicted evolution of the referred drivers being mostly positive, i.e. with a notable increase in expected Turnover, alongside the forecasted growth and stabilization of the Operating Margins, as well as of required Investments, all already talked above, we forecast Operating FCF to steadily increase throughout the forecasted period showing a 6.6% CAGR and reaching $4 494m by FY38 (Table 5 – Appendix).

Cost of Capital

Regarding the Exogenous rates, during our calculations we used the Risk-Free rate as the 10-year US treasury bonds from Bloomberg as of the 7th of September of 2023 of 4.28%, as this is considered nearly free of default risk as it is backed by the US

Graph 101: Hilton's Historical Capital Structure



Source: Bloomberg, Hilton Annual Reports and Own Estimates

Table 6: Hilton Target Capital Structure ($m)

Target Capital Structure	
Net Debt	8,959
Excess Cash	610.7
Debt and Debt Equivelents	**9,570**
Price per Share	$154.74
Shares Outstanding (Millions)	262
Market Cap	**40,467**
EV	**49,434**
ND/EV	18.1%
E/EV	81.9%

Source: Bloomberg, Hilton Annual Reports and Own Estimates

Government. Whereas the Market Risk Premium was assumed to be 4.40% estimated by Damodaran, as this would be a reasonable proxy to use in our model.

- Capital Structure

In recent history, Hilton's leverage ratio has been relatively stable as its Net Debt (Total Debt minus Excess Cash) to EV ratio going from 19.4% in 2017 to 20.0% in 2022. Even though the firm saw some fluctuations in between those years, namely in 2018, where there was a sharp fall in share price and thus the ratio increased to 25%, and in 2021, where the contrary happened, this shows Hilton aims to maintain their leverage ratio stable in order not to endanger its S&P and Moody's credits ratings of BB+ and Ba2 respectively. This is key for Hilton to be able to raise debt with favourable conditions in the future. Moreover, we did not estimate Total Debt and Excess cash independently but rather, we estimated Hilton's Net Debt for the forecasted period as a percentage of the expected Operating EV, based on the LTM percentage of 18.1% (graph 101 and table 6)

- Cost of Equity (Re)

Now moving onto the Cost of Equity (Re), the initial step is to compute the levered Beta. This βe will provide an insight into how Hilton's stock returns have been fluctuating in correlation with the overall market, hence representing the company's systematic risk. Thus, we needed to regress Hilton's returns against a market representative index, and for that matter we chose to use the S&P 500 as the US is still Hilton's biggest market. The S&P 500 is widely recognized as a robust benchmark as it comprises the top 500 US companies, all characterized by an extensive market coverage, with high liquidity and that presents a favourable option for investors. We used monthly returns from December 2013 onwards, date where Hilton went public once again and launched its second IPO. This way, we reached a βe of 1.32, which bearing Hilton's capital structure means an unlevered Beta (βu) of 1.10. This methodology was repeated for all peers, however, as IHG is European, we used the Stoxx 600 as the market portfolio for the regression and systematic risk calculation. Further, we used the CAPM Model to determine the Re. Firstly, we computed Hilton's βu through the average of the unlevered Betas of its competitors coming from the regression explained previously, along with its own, to reduce the statistical error of using only Hilton's βu. Thus, we reached the value of 1.17. Moreover, we re-leveraged the βu in order to reach an estimated βe of 1.42, and finally, using the Rf and MRP mentioned above, we reached an expected Re of 10.5% (Table 7 – Appendix).

- Cost of Debt (Rd)

To estimate the Cost of Debt (Rd) we used Hilton's corporate bond maturing in 2028 with a yield of 5.75% and a $500m principal, taken from Bloomberg. Moreover, through Moody's report we assumed a Loss Given Default for Unsecured Senior Bonds of 64.90%, and a Probability of Default of 1.78% based on Moody's Baa2 rating. Hence, we were able to estimate the Rd of 4.59% and consequently an implied βd of 0.07.

Table 8: WACC Computation (Long-Term)

WACC	
Rf	4.28%
βe	1.42
MRP	4.40%
Re	10.5%
E/EV	81.9%
Rd	4.6%
ND/EV	18.1%
Marginal Tax Rate	24.7%
WACC	9.24%

Source: Own Estimates

- WACC

The estimation of the WACC started with the calculation of the Marginal Tax Rate that amounted to 24.74%, as we used the 2022 values for Statutory US Federal Income Tax of 21% added to the State Income Tax of 3.7%. Further, as we assumed Hilton's leverage ratios to decrease to the LTM level from 2023 onwards, we estimate the firm's Equity-to-EV ratio to equal 81.9% while the Debt-to-EV ratio will equal 18.1%. This way, with both the Re and after-tax Rd estimated, along with the E/EV and D/EV ratios that stay stable over the forecasted years, we reach a WACC of 9.24% which is assumed to be stable over the forecast as well (table 8).

Terminal Value (TV)

By aligning it with a sustainable growth scenario in the steady state, where Free Cash Flow (FCF g) and NOPLAT g were similar and stable, we assumed the long-term g to equal the NOPLAT g for the final year of our forecast, at 5.11% (Table 9 – Appendix). It's also important to note the feasibility of this value as it finds itself between the World Inflation Rate of 3% and the World Nominal GDP growth rate of 6.5% (Real GDP growth rate of 3.5% adjusted to inflation). Further, we found the world values to be more adequate to Hilton's situation as it already is a globalized company, and we only expect it to become more global with the firm's gross revenue being close to 50% from outside the US by the end of our forecast. Hence, through the perpetuity formula we reached a TV of $114 448m (Table 10 - Appendix).

Concerning the Return on Invested Capital (ROIC), we forecast it to stabilize at near 36%, which is largely above the WACC, and thus means the company will continue to create value for its shareholders. This large value for ROIC, comes from the fact that Hilton Hotels has made strategic investments to enhance operational efficiency, and recent quarters have reflected improvements in margins. Further, we have already seen how Hilton is moving away from property owning and betting on the management and franchising, allowing for sustainable growth to come without the need for heavy investments. Therefore, we believe achieving a 36% ROIC in the long term is feasible, as Hilton's new invested capital growth continues to drop. Importantly, we hold the view that Hilton's ROIC will remain above its Weighted Average Cost of Capital (WACC), as replicating Hilton's global hospitality business involves significant barriers. Despite competition in the hospitality sector, Hilton's unique services and global presence set it apart. Thus, this allows Hilton to consistently deliver value to its stakeholders.

Discount Cash Flow (DCF)

Table 11: Discounted Cash Flow Model

Operating EV	**57,292**
Net Debt	(9,935)
Other assets, net other liabilities	42
Equity Value	47,399
Shares Outstanding (millions)	237.299
Price Per Share (Dec, 31st 2024)	**$199.74**

Source: Own Estimates

To estimate Hilton's Equity Value as of December 31st, 2024, we deducted to the Operating EV of $57 292m, suggesting an EV-to-EBIDTA multiple of 20.7x, the value of the Net Debt (Total Debt minus Excess Cash), which amounted to $9 935m, while adding the Other Assets, net of Other Liabilities, of $42m. This way, we reached an Equity Value of $47 399m. Dividing this value by the predicted shares outstanding of 237.3m, we find a Price Per Share of $199.74 (table 11).

Relative Valuation

In terms of relative valuation, we choose the competitive set defined before since they are closely aligned with Hilton, including Marriott, Hyatt, Wyndham, Intercontinental and Choice, due to shared characteristics in business model.

Table 12: Relative Valuation Multiples

(as of September 12th, 2023)	EV/Revenues	EV/EBITDA	EV/EBIT
Multiples			
HILTON WORLDWIDE	5.0x	20.1x	21.4x
MAR	3.2x	16.9x	18.1x
HYATT	2.1x	16.9x	35.3x
WYNDHAM	5.8x	14.7x	16.9x
CHOICE	5.0x	15.2x	18.3x
IHG	7.1x	14.1x	15.3x
Hilton Implied Multiple by DCF	**12.7x**	**20.7x**	**21.6x**

Multiples	1st Quartile	Median	3rd Quartile
EV/EBITDA	14.8x	16.1x	16.9x
EV/EBIT	17.2x	18.2x	20.6x

Source: Own Estimates

Hence, using the Last Twelve Months (LTM) data for these companies, we found values for EV to EBITDA ranging from 14.8x to 16.9x for the peers while for Hilton itself the ratio raised to 20.1x. Further, we reach price per share values from $133.0 to $168.4, and $207.3 using Hilton's valuation. We chose EV-to-EBITDA over EV-to-EBIT, as the firm does not show to have heavy depreciation and amortization expenses mainly due to the asset light business plan. There were also no big outliers using this metric as all the peers seem to be within a close range of values. One can also note that Hilton's valuation through multiples is much inflated compared to those of the peers, potentially because of its strong post-pandemic recovery and the benefits of its higher focus on the M&F segment that may allow it to grow with lesser capital risks.

Moreover, the Median EV-to-EBITDA multiple of the industry amounted to 16.1x, leading to an implied price per share of $187.16 which we believe to fall short of the expected price per share of Hilton by December 2024 as Hilton and has been outgrowing the market. Furthermore, the plans for expansion can be clearly observed through the growth in number of properties and rooms through the world. This can also be seen by the evolution of the firm's Share Price throughout the last couple months as it grew nearly 15% from $154.74 as of September 15th to $177.23 on December 17th, 2023. Hence, we believe an EV-to-EBITDA of 20.7x supported by our DCF model would be more appropriate and better reflect Hilton's fair Market Value (table 12).

Table 13: Cost of Equity (Re) - Sensitivity Analysis

be	1.12	1.27	1.42	1.57	1.73
Re	9.23%	9.88%	10.52%	11.19%	11.90%
WACC	8.18%	8.71%	9.24%	9.79%	10.37%

Source: Own Estimates

Sensitivity Analysis

Initially, a sensitivity analysis was undertaken for the βe and, consequently, the Re. This involved establishing a 95% confidence interval for Marriott, Intercontinental, Hyatt, Wyndham, and Choice βe. Unlevering and averaging their extreme values within this interval, we then re-leveraged the data for a sensitivity analysis using Hilton's future capital structure ratios. The possible values for βe ranged from 1.12 to 1.73, translating to a cost of equity between 9.23% and 11.90%, as summarized in table 13.

Table 14: Cost of Debt (Rd) - Sensitivity Analysis

Rd	3.9%	4.4%	4.8%	5.3%	5.8%
WACC	9.15%	9.21%	9.27%	9.33%	9.40%

Source: Own Estimates

Table 15: WACC Sensitivity Analysis

		Re				
		9.23%	9.88%	10.52%	11.19%	11.90%
Rd	3.91%	8.09%	8.62%	9.15%	9.69%	10.28%
	4.37%	8.15%	8.68%	9.21%	9.76%	10.34%
	4.83%	8.22%	8.74%	9.27%	9.82%	10.40%
	5.29%	8.28%	8.81%	9.33%	9.88%	10.47%
	5.75%	8.34%	8.87%	9.40%	9.94%	10.53%

Source: Own Estimates

Further, a sensitivity analysis on Rd was conducted, with the range falling within Hilton's Yield to Maturity (YTM) and an Rd estimation in the event of the firm dropping from its current credit rating (Ba2 for senior unsecured debt) to Ba3. Table 14 illustrates that the potential range for Rd has minimal impact on WACC. Measuring both potential changes together, WACC values could vary from 8.09% to 10.53%, leading to a share price range of $141.58 to $294.29 (table 15 and 16).

Table 16: Price per Share ($) – Sensitivity Analysis to WACC

WACC				
8.09%	8.67%	9.24%	9.88%	10.53%
294.29	239.35	199.74	166.72	141.58

Source: Own Estimates

Table 17: Terminal Value ($TV) – Sensitivity Analysis

NOPLAT g	4.61%	4.86%	5.11%	5.36%	5.61%
FCF	4,701	4,712	4,723	4,735	4,746
TV	101,595	107,655	114,448	122,117	130,844

Source: Own Estimates

Moreover, a sensitivity analysis for the Terminal Value was performed, varying the LT NOPLAT g. Further, the sensitivity was enhanced by adjusting the Free Cash Flow used in the terminal value formula, accounting for the change in NOPLAT g. This

Table 18: WACC and Growth (NOPLAT g) – Sensitivity Analysis

		WACC				
	199.74	8.09%	8.67%	9.24%	9.88%	10.53%
NOPLAT g	4.61%	259.73	216.08	183.32	155.13	133.12
	4.86%	275.67	226.95	191.06	160.63	137.17
	5.11%	294.29	239.35	199.74	166.72	141.58
	5.36%	316.32	253.62	209.54	173.47	146.43
	5.61%	342.79	270.24	220.70	181.02	151.76

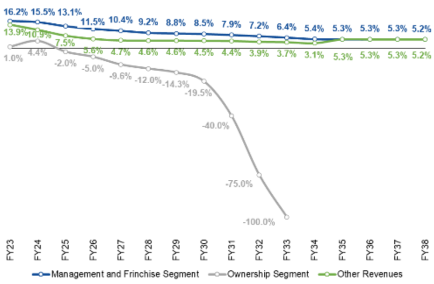
Source: Own Estimates

yielded reasonable values ranging from $101 595m to $130 844m (table 17). Lastly, a sensitivity analysis on the price per share revealed the impact of changes in WACC and g. The selected range for WACC was determined in prior sensitivity analyses for these inputs while g was set to vary by 0.25%. Analysing the output one can see the model remained sensitive to these inputs, emphasizing the need for careful consideration of assumptions, especially regarding changes in WACC (table 18).

Scenario Analysis

- Best-Case Scenario

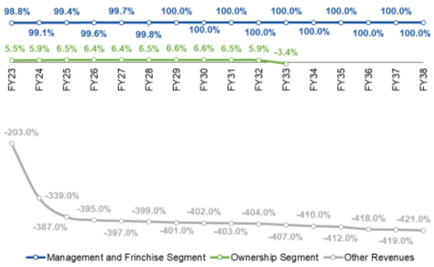
Graph 102: Best-Case Scenario Revenues Growth, by Segment



Source: Own Estimates

In our optimistic scenario, we base our projections on seven key assumptions: a faster and more robust economic recovery for the hospitality industry, an outstanding expansion of the management and franchising segment, a more rapidly disappearing of owned' properties and, as a result, a substantial decrease in fixed costs, higher occupancy rates, increased operating efficiency across the three main business segments, reduced capital requirements as a percentage of revenues.

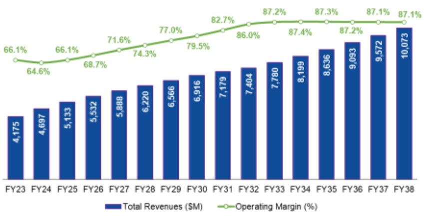
Graph 103: Best-Case Scenario Operating Margins, by Segment



Source: Own Estimates

Anticipating a quicker global economic recovery for the travel sector as a consequence of both expected increase in GDP and household disposable income, as well as a boost in travellers' confidence about domestic and international travel, we foresee a positive impact on Hilton. Therefore, this would lead to higher revenues and improved operating margins, especially as the weight of the more lucrative management and franchise segment increases (graphs 102 and 104). Additionally, in this scenario, the assumed ongoing strategy of becoming a full asset-light business to happen slightly faster, with a remarkable growth of the number of rooms in management and franchise segment, while a faster decrease in owned hotels would not damage Hilton's reputation (graph 102). The M&F segment would then experience a near double digit CAGR of 9.8% from 2023 to 2033 before stabilizing at the same growth as the base scenario, although at a larger scale. Whereas the owned segment would disappear one year earlier as the company fully focuses on maintaining their reputation and growing M&F, which would also lead overall operating margins to increase as the owned segment is the least profitable one. Further, this would lead fixed costs down earlier, along with PPE, while captions such as Brands and M&F contracts, net would increase in value and in percentage of revenues to the larger weight of the segment. Further, as the Liability for Guest LP and Deferred revenues are such good enhancers of M&F revenues, as mentioned before, we also predict there would be more investment in trying to increase these values in amount and in percentage of revenues by c.4pp.

Graph 104: Best-Case Scenario Revenues and Operating Margin Forecast



Source: Own Estimates

This potential Best-Case scenario culminates in FY38 NOPLAT of $6 536m and Operating FCF of $5 807m, leading to a TV of $150 423m as LT NOPLAT g stayed at 5.2%. Assuming the same WACC and ND/EV values we reached a price per share of $254.38, significantly higher than the base case (table 19).

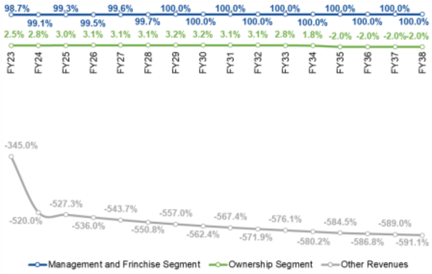
Table 19: Best-Case Scenario Results

Best-Case Scenario	
FCF g (FY38)	5.3%
NOPLAT g (FY38)	5.2%
WACC	9.24%
Perpetual Growth	5.2%
Terminal Value	150,423
Enterprise Value (FY24)	73,618
Price Per Share	**$254.38**

Source: Own Estimates

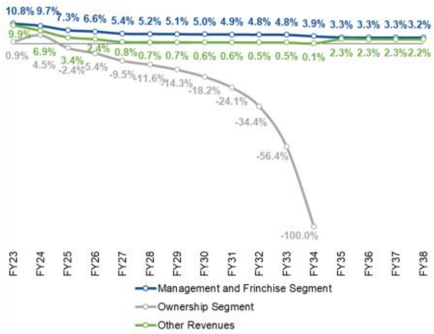
- Worst-Case Scenario

Graph 105: Worst-Case Scenario Operating Margins, by Segment



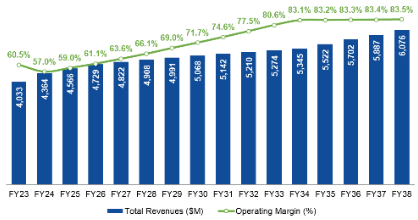
Source: Own Estimates

Graph 106: Worst-Case Scenario Revenues Growth, by Segment



Source: Own Estimates

Graph 107: Worst-Case Scenario Revenues and Operating Margin Forecast



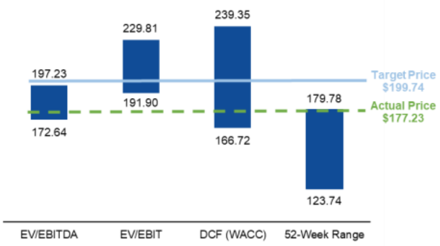
Source: Own Estimates

Table 20: Worst-Case Scenario Results

Worst-Case Scenario	
FCF g (FY38)	3.0%
NOPLAT g (FY38)	2.8%
WACC	9.24%
Perpetual Growth	2.8%
Terminal Value	51,879
Enterprise Value (FY24)	35,606
Price Per Share	**$123.02**

Source: Own Estimates

Graph 108: Hilton Football Field Chart



Source: Own Estimates

In the worst-case scenario, a more conservative approach is expected in terms of fully industry recover after COVID-19, being this expected to only happen in a later stage, contributing to economic uncertainty and reduced investments. Lower occupancy rates, driven by lack of confidence of travellers due to safety concerns, as well as because of a combination of lower household disposable income, resulting from lower GDP growth, and higher ADR due to higher inflation. All this further impact Hilton's operating margins negatively (graph 105).

Further, in this worst-case scenario we see Hilton's reputation to worsen as a consequence of them being less in control over their operations in the M&F hotels, with each hotel owner wanting more responsibility. This would also impact revenues in a negative way. Hence, we project revenues growth to be between 2pp and 3pp lower bearing a larger decrease for M&F than for the ownership segment. We also expect the ownership segment to cease to exist in the same year as in the base-case scenario. This would culminate in a revenues CAGR of only 2.25% throughout the forecast (graph 106 and 107).

Regarding profitability, there was not much change for M&F as the costs are small and would not change as it only refers to the amortization of M&F recorded at merger. However, as an increase in inflation is forecasted, the costs for the other segments were forecasted to increase leading the operating margins of the ownership segment to decrease in 2pp and c.50pp for the Other Revenues as the revenues from this segment were significantly low (graph 105).

Although we expect this scenario to have the ownership segment's existence to stop in a similar timeframe as in the base-scenario, we still think PPE over revenues would be smaller, and so would the Brands and M&F contracts captions, with the latter two suffering more severely (1, 3 and 2 pp decreases respectfully). We also assume a lesser investment in the loyalty program and so, its liabilities, as well as the deferred revenues would both come closer to 0 as a percentage of revenues by 1pp.

Overall, Hilton would reach a FY38 NOPLAT of $3 465m and FCF of $3 270m, as investment would also decrease. In this scenario we forecast a final NOPLAT g of only 2.8% meaning a TV of $51 879m. Discounting the cashflows, we reach an EV of $35 606m meaning a price of $123.02 per share (table 20).

Final Recommendation

According to our DCF model, we predict Hilton's Stock to be traded at $199.74 per share as of December 31st, 2024. We believe this to be the most accurate way to assess Hiltons expected fair value. This way, bearing a **$177.23 price per share** as of December 15th, 2023, and the expected $0.15 quarterly dividend per share, which amounts to $0.60 annually, our recommendation would be to **buy** Hilton's stock as there is an expected shareholder return of 13.04% (12.70% appreciation and 0.34% dividend yield).

Appendix

Table 5: Forecasted Operating Free Cash Flow

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
NOPLAT	896	1,801	1,821	2,037	2,228	2,422	2,606	2,799	3,012	3,227	3,456	3,697	3,953	4,173	4,390	4,616	4,853	5,101
Depreciation and Amortization	188	162	113	116	123	130	137	144	141	150	160	169	178	186	199	213	227	243
Gross Cash Flow	**1,084**	**1,963**	**1,933**	**2,153**	**2,351**	**2,552**	**2,743**	**2,944**	**3,153**	**3,377**	**3,615**	**3,866**	**4,132**	**4,359**	**4,589**	**4,829**	**5,081**	**5,344**
Changes in NWCR	217	75	(221)	(41)	(181)	(129)	(174)	(227)	(178)	(195)	(213)	(232)	(253)	(196)	(79)	(84)	(89)	(94)
Capex, Net	(75)	(104)	(162)	(175)	(177)	(180)	(182)	(187)	(182)	(191)	(201)	(211)	(222)	(237)	(266)	(284)	(302)	(322)
Change in Operating right-of-use assets	78	32	26	34	45	52	61	62	63	65	66	67	69	51	-	-	-	-
Change in Brands	21	43	(48)	(73)	(99)	(101)	(103)	(132)	(162)	(167)	(172)	(177)	(182)	(188)	(193)	(199)	(205)	(211)
Change in Management and Franchise contracts, net	(105)	(129)	(152)	(179)	(200)	(220)	(236)	(252)	(278)	(292)	(307)	(323)	(339)	(350)	(362)	(374)	(388)	(401)
Change in Liability for Guest Loyalty Program	(449)	(32)	221	123	86	58	26	(8)	54	56	57	59	61	63	65	67	69	71
Change in Operating DTLs, net of Operating DTAs	32	44	51	58	41	36	27	28	28	29	30	30	31	28	51	53	55	58
Change in Deferred Revenue	(108)	90	66	86	60	40	18	(6)	38	39	40	41	43	44	45	47	48	49
Change in Goodwill, Net	24	39	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	**(365)**	**58**	**(220)**	**(168)**	**(426)**	**(443)**	**(562)**	**(722)**	**(617)**	**(657)**	**(699)**	**(744)**	**(793)**	**(785)**	**(740)**	**(775)**	**(811)**	**(850)**
Operating Free Cash Flow	**719**	**2,021**	**1,714**	**1,985**	**1,925**	**2,109**	**2,181**	**2,222**	**2,536**	**2,721**	**2,916**	**3,122**	**3,339**	**3,574**	**3,849**	**4,054**	**4,269**	**4,494**

Table 7: Unlevered beta (βu)

(in millions of $, except IHG)	HLT	MAR	HYATT	WYNDHAM	CHOICE	IHG	**Average**
βe	1.32	1.63	1.46	1.50	1.29	1.38	
ND	8,959	11,733	2,547	1,995	1,421	984	
E	40,475	60,889	11,387	6,387	6,458	14,440	
EV	49,434	72,622	13,934	8,382	7,879	15,424	
D/E	22.14%	19.27%	22.37%	31.24%	22.01%	6.81%	
implied βd	0.07	-0.39	0.26	-0.17	-0.21	-0.20	
βu	1.10	1.30	1.24	1.11	1.02	1.28	1.17

Table 9: FCF g and NOPLAT g

(in million dollars, as of 31st Dec)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
NOPLAT	1,073	(70)	896	1,801	1,821	2,037	2,228	2,422	2,606	2,799	3,012	3,227	3,456	3,697	3,953	4,173	4,390	4,616	4,853	5,101
Invested Capital	8,626	7,354	7,531	7,311	7,418	7,469	7,772	8,085	8,510	9,087	9,563	10,070	10,609	11,185	11,800	12,399	12,940	13,502	14,086	14,694
FCF	412	1,202	719	2,021	1,714	1,985	1,925	2,109	2,181	2,222	2,536	2,721	2,916	3,122	3,339	3,574	3,849	4,054	4,269	4,494
ROIC (excl Goodwill)	38.25%	-3.10%	39.66%	73.21%	79.90%	85.37%	91.40%	88.39%	85.34%	80.49%	74.28%	71.21%	68.59%	66.29%	64.25%	61.66%	59.59%	58.38%	57.30%	56.35%
ROIC	13.47%	-0.81%	12.18%	23.91%	24.91%	27.46%	29.83%	31.16%	32.23%	32.90%	33.15%	33.74%	34.32%	34.85%	35.34%	35.37%	35.41%	35.68%	35.95%	36.22%
FCF g	**-69.65%**	**191.80%**	**-40.19%**	**181.06%**	**-15.20%**	**15.81%**	**-3.02%**	**9.59%**	**3.38%**	**1.89%**	**14.14%**	**7.28%**	**7.16%**	**7.06%**	**6.96%**	**7.05%**	**7.68%**	**5.35%**	**5.30%**	**5.26%**
NOPLAT g	**0.09%**	**-106.52%**	**-1380.00%**	**101.00%**	**1.10%**	**11.85%**	**9.39%**	**8.72%**	**7.57%**	**7.44%**	**7.60%**	**7.13%**	**7.09%**	**6.99%**	**6.93%**	**5.56%**	**5.19%**	**5.16%**	**5.13%**	**5.11%**

Table 10: Terminal Value

(in million dollars, as of 31st Dec)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Unlevered Operating FCF	**1,925**	**2,109**	**2,181**	**2,222**	**2,536**	**2,721**	**2,916**	**3,122**	**3,339**	**3,574**	**3,849**	**4,054**	**4,269**	**4,494**
WACC	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**	**9.24%**
Periods of Discount	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.50	11.50	12.50	13.50
Discount Factor	0.96	0.88	0.80	0.73	0.67	0.62	0.56	0.52	0.47	0.43	0.40	0.36	0.33	0.30
PV Unlevered Operating FCF	**1,842**	**1,847**	**1,748**	**1,631**	**1,704**	**1,673**	**1,642**	**1,609**	**1,575**	**1,544**	**1,522**	**1,467**	**1,414**	**1,363**

Terminal Value	114,448
Present Value Terminal Value	**34,710**

Table 21: Forecast Balance Sheet

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Core																		
Operating Cash	49	75	82	90	96	101	105	109	113	117	121	125	130	134	141	148	156	164
% Revenues	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Restricted Cash and Cash Equivalents	85	77	109	120	127	134	139	144	150	155	161	166	172	177	187	197	207	218
% Revenues	3.5%	2.1%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Accounts Receivable, net of allowance for doubtful of $29, $4	1,068	1,327	1,402	1,479	1,554	1,637	1,700	1,763	1,828	1,894	1,962	2,032	2,103	2,168	2,284	2,405	2,532	2,664
Avg number of days	160	130	125	120	119	119	119	119	119	119	119	119	119	119	119	119	119	119
Prepaid Expenses	89	105	153	169	182	195	206	218	229	242	255	269	283	296	311	328	345	363
Avg number of days	8	6	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Income Taxes Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Current Assets	1,291	1,584	1,746	1,858	1,960	2,067	2,150	2,234	2,320	2,408	2,499	2,592	2,688	2,775	2,923	3,078	3,239	3,409
Accounts Payable, Accrued Expenses and Other	1,568	1,790	1,668	1,608	1,437	1,353	1,235	1,100	950	784	600	398	176	-	-	-	-	-
Avg number of days	843	654	600	550	500	494	494	494	494	494	494	494	494	494	494	494	494	494
Current Proportion of Deferred Revenues	350	433	441	477	502	519	526	524	540	556	573	590	608	626	645	665	685	705
Income Taxes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Proportion of Liability for Guest Loyalty Program	1,047	1,110	1,165	1,260	1,327	1,372	1,392	1,386	1,427	1,470	1,515	1,561	1,608	1,656	1,706	1,758	1,811	1,866
Operating Current Liabilities	2,965	3,333	3,274	3,345	3,266	3,244	3,153	3,009	2,917	2,810	2,688	2,549	2,392	2,283	2,352	2,423	2,496	2,571
Net Working Capital Requirements	(1,674)	(1,749)	(1,528)	(1,487)	(1,306)	(1,177)	(1,003)	(775)	(597)	(402)	(189)	43	296	492	571	655	744	838
% Revenues	(68.5)%	(46.8)%	-37.3%	-33.0%	-27.3%	-23.3%	-19.2%	-14.3%	-10.6%	-6.9%	-3.1%	0.7%	4.6%	7.4%	8.1%	8.8%	9.5%	10.2%
Property and Equipment, net	305	280	272	263	252	240	226	212	198	184	169	154	139	128	131	134	136	139
% Revenues	12.5%	7.5%	6.6%	5.8%	5.3%	4.8%	4.3%	3.9%	3.5%	3.2%	2.8%	2.5%	2.1%	1.9%	1.9%	1.8%	1.7%	1.7%
Brands	4,883	4,840	4,888	4,962	5,061	5,162	5,265	5,397	5,559	5,726	5,898	6,074	6,257	6,444	6,638	6,837	7,042	7,253
% growth	(0.4)%	(0.9)%	1.0%	1.5%	2.0%	2.0%	2.0%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Management and Franchise contracts, net	758	887	1,039	1,218	1,418	1,638	1,874	2,126	2,404	2,697	3,004	3,326	3,665	4,015	4,377	4,752	5,139	5,541
Other Intangible Assets, net	194	161	218	286	351	413	471	527	582	637	692	749	809	870	935	1,003	1,075	1,151
% Revenues	7.9%	4.3%	5.3%	6.4%	7.3%	8.2%	9.0%	9.7%	10.3%	10.9%	11.5%	12.0%	12.5%	13.0%	13.3%	13.5%	13.8%	14.0%
Operating Lease Right-of-use Assets	694	662	636	601	557	505	444	382	318	253	187	120	51	-	-	-	-	-
% Growth nº of owned/leased hotels	(6.4)%	(3.0)%	(4.0)%	(5.4)%	(7.4)%	(9.4)%	(12.1)%	(14.0)%	(16.6)%	(20.3)%	(26.0)%	(35.9)%	(57.2)%	(100.0)%	0.0%	0.0%	0.0%	0.0%
Liability for Guest Loyalty Program	(1,317)	(1,285)	(1,506)	(1,629)	(1,715)	(1,773)	(1,799)	(1,790)	(1,844)	(1,900)	(1,958)	(2,017)	(2,078)	(2,140)	(2,205)	(2,272)	(2,340)	(2,411)
% Revenues	(53.9)%	(34.4)%	(36.8)%	(36.2)%	(35.8)%	(35.2)%	(34.4)%	(33.0)%	(32.8)%	(32.6)%	(32.4)%	(32.2)%	(32.1)%	(32.0)%	(31.3)%	(30.7)%	(30.0)%	(29.4)%
Operating DTLs, net of Operating DTAs	(487)	(531)	(582)	(640)	(680)	(717)	(744)	(772)	(800)	(829)	(859)	(889)	(921)	(949)	(1,000)	(1,053)	(1,108)	(1,166)
% Revenues	(19.9)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%	(14.2)%
Deferred Revenues	(896)	(986)	(1,052)	(1,138)	(1,198)	(1,238)	(1,256)	(1,250)	(1,288)	(1,327)	(1,367)	(1,408)	(1,451)	(1,495)	(1,540)	(1,586)	(1,634)	(1,684)
Core Invested Capital (excluding Goodwill)	2,460	2,279	2,386	2,437	2,740	3,053	3,478	4,055	4,531	5,038	5,577	6,153	6,768	7,367	7,908	8,470	9,054	9,662
	8.89%	(7.36)%	4.69%	2.17%	12.43%	11.41%	13.92%	16.60%	11.74%	11.17%	10.72%	10.32%	9.99%	8.85%	7.35%	7.11%	6.90%	6.71%
Goodwill	5,071	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032
Core Invested Capital (including Goodwill)	7,531	7,311	7,418	7,469	7,772	8,085	8,510	9,087	9,563	10,070	10,609	11,185	11,800	12,399	12,940	13,502	14,086	14,694
	2.41%	(2.92)%	1.46%	0.70%	4.06%	4.02%	5.26%	6.79%	5.24%	5.29%	5.36%	5.43%	5.49%	5.08%	4.36%	4.34%	4.33%	4.32%
Non-Core																		
Other assets, net other liabilities	(92)	36	39	40	42	43	45	46	48	49	51	53	55	57	59	61	63	65
% growth	(83.8)%	(139.1)%	7.0%	3.9%	3.9%	3.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Total Non-Core Invested Capital	(92)	36	39	40	42	43	45	46	48	49	51	53	55	57	59	61	63	65
Total Invested Capital	7,439	7,347	7,456	7,509	7,814	8,128	8,555	9,134	9,611	10,119	10,661	11,238	11,854	12,455	12,998	13,562	14,148	14,758
Financing																		
Current Maturities of Long-Term Debt	54	39																
Long-Term Debt	8,712	8,708																
Operating Lease Liabilities	870	832																
Total Debt	9,636	9,579																
Excess Cash	(1,378)	(1,134)																
% Net Debt	(16.7)%	(13.4)%																
Net Debt	8,258	8,445	10,164	9,935	10,504	11,092	11,722	12,402	13,088	13,804	14,552	15,330	16,142	16,985	17,857	18,773	19,733	20,742
Debt and Debt Equivalents	8,258	8,445	10,164	9,935	10,504	11,092	11,722	12,402	13,088	13,804	14,552	15,330	16,142	16,985	17,857	18,773	19,733	20,742
Shareholders' equity	(821)	(1,102)	(2,712)	(2,429)	(2,694)	(2,968)	(3,171)	(3,272)	(3,481)	(3,689)	(3,895)	(4,096)	(4,291)	(4,534)	(4,863)	(5,214)	(5,589)	(5,988)
Transactions with SH	178	(1,609)	(3,157)	(1,421)	(2,167)	(2,351)	(2,444)	(2,514)	(2,810)	(3,001)	(3,202)	(3,414)	(3,637)	(3,876)	(4,150)	(4,368)	(4,597)	(4,836)
Dividends paid			157	146	285	274	263	253	243	233	446	428	410	393	376	359	343	327
Share buybacks			3,000	1,274	1,882	2,077	2,181	2,261	2,567	2,768	2,756	2,986	3,227	3,483	3,774	4,009	4,254	4,509
Noncontrolling Interests	2	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Equity and equity equivalents	(819)	(1,098)	(2,708)	(2,425)	(2,690)	(2,964)	(3,167)	(3,268)	(3,477)	(3,685)	(3,891)	(4,092)	(4,287)	(4,530)	(4,859)	(5,210)	(5,585)	(5,984)
Total Sources of Fund	7,439	7,347	7,456	7,509	7,814	8,128	8,555	9,134	9,611	10,119	10,661	11,238	11,854	12,455	12,998	13,562	14,148	14,758

Table 22: Forecasted Income Statement

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Revenues																		
Franchise and licensing fees	1,493	2,068	2,306	2,559	2,788	3,021	3,239	3,467	3,706	3,957	4,221	4,497	4,787	5,028	5,279	5,540	5,810	6,091
% of revenues	61.1%	55.4%	56.3%	56.9%	58.2%	59.9%	61.9%	63.8%	65.8%	67.8%	69.8%	71.9%	73.9%	75.3%	75.0%	74.8%	74.5%	74.2%
Base and other management fees	176	294	342	392	434	474	512	553	596	643	694	749	808	863	919	979	1,043	1,111
% of revenues	7.2%	7.9%	8.4%	8.7%	9.1%	9.4%	9.8%	10.2%	10.6%	11.0%	11.5%	12.0%	12.5%	12.9%	13.1%	13.2%	13.4%	13.5%
Incentive management fees	98	196	238	272	301	329	355	384	414	446	482	520	561	599	638	680	724	771
% of revenues	4.0%	5.2%	5.8%	6.1%	6.3%	6.5%	6.8%	7.1%	7.4%	7.6%	8.0%	8.3%	8.7%	9.0%	9.1%	9.2%	9.3%	9.4%
Owned and leased hotels	598	1,076	1,093	1,149	1,130	1,077	983	875	756	623	477	317	140	-	-	-	-	-
% of revenues	24.5%	28.8%	26.7%	25.5%	23.6%	21.4%	18.8%	16.1%	13.4%	10.7%	7.9%	5.1%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Other revenues	79	102	115	127	135	142	147	153	158	164	170	176	182	188	198	208	219	231
% of revenues	3.2%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Total revenues	**2,444**	**3,736**	**4,094**	**4,500**	**4,787**	**5,043**	**5,236**	**5,431**	**5,631**	**5,834**	**6,044**	**6,258**	**6,478**	**6,678**	**7,034**	**7,407**	**7,797**	**8,205**
Expenses and other income																		
Other revenues from managed and franchised properties	3,344	5,037	6,598	7,360	8,034	8,713	9,350	10,019	10,726	11,470	12,259	13,092	13,973	14,730	15,511	16,328	17,184	18,080
% of revenues	136.8%	134.8%	161.1%	163.6%	167.8%	172.8%	178.6%	184.5%	190.5%	196.6%	202.8%	209.2%	215.7%	220.6%	220.5%	220.4%	220.4%	220.4%
Other expenses from managed and franchised properties	(3,454)	(5,076)	(6,598)	(7,360)	(8,034)	(8,713)	(9,350)	(10,019)	(10,726)	(11,470)	(12,259)	(13,092)	(13,973)	(14,730)	(15,511)	(16,328)	(17,184)	(18,080)
% of revenues	(141.3)%	(135.9)%	21.5%	21.3%	21.2%	21.2%	21.3%	21.3%	21.4%	21.5%	21.5%	21.6%	21.6%	21.6%	21.6%	21.6%	21.6%	21.6%
Owned and leased hotels	(679)	(999)	(1,015)	(1,067)	(1,049)	(1,000)	(912)	(813)	(702)	(579)	(443)	(294)	(130)	-	-	-	-	-
% of Revenues	(113.5)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%
General and administrative	(405)	(382)	(566)	(622)	(662)	(697)	(724)	(751)	(778)	(806)	(835)	(865)	(895)	(923)	(972)	(1,024)	(1,077)	(1,134)
% of revenues	(16.6)%	(10.2)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%
Other expenses	(45)	(60)	(68)	(74)	(79)	(83)	(86)	(90)	(93)	(96)	(100)	(103)	(107)	(110)	(116)	(122)	(129)	(135)
% of revenues	(1.8)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%
Gain (loss) on foreign currency transactions	(7)	5	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
% growth	(74.1)%	(171.4)%	(230.0)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	(1,246)	**(1,475)**	**(1,655)**	**(1,770)**	**(1,796)**	**(1,786)**	**(1,729)**	**(1,659)**	**(1,579)**	**(1,488)**	**(1,385)**	**(1,269)**	**(1,139)**	**(1,040)**	**(1,095)**	**(1,152)**	**(1,213)**	**(1,276)**
OCI: Currency translation adjustment, net of tax of $32, $6, $(8)	(29)	(8)	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
% growth	(176.3)%	(72.4)%	(285.4)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OCI: Cash flow hedge adjustment, net of tax of $(7), $(8), $15, $	31	130	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
% growth	(181.6)%	319.4%	(85.5)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total operating expenses and other income	**(1,244)**	**(1,353)**	**(1,621)**	**(1,736)**	**(1,762)**	**(1,753)**	**(1,695)**	**(1,626)**	**(1,546)**	**(1,454)**	**(1,351)**	**(1,235)**	**(1,105)**	**(1,006)**	**(1,061)**	**(1,119)**	**(1,179)**	**(1,242)**
Operating EBITDA	**1,200**	**2,383**	**2,474**	**2,764**	**3,025**	**3,290**	**3,541**	**3,806**	**4,085**	**4,380**	**4,693**	**5,023**	**5,373**	**5,673**	**5,974**	**6,288**	**6,618**	**6,963**
% EBITDA Margin	49.1%	63.8%	60.4%	61.4%	63.2%	65.2%	67.6%	70.1%	72.6%	75.1%	77.6%	80.3%	82.9%	84.9%	84.9%	84.9%	84.9%	84.9%
Depreciation and Amortization	(188)	(162)	(113)	(116)	(123)	(130)	(137)	(144)	(141)	(150)	(160)	(169)	(178)	(186)	(199)	(213)	(227)	(243)
Operating EBIT	**1,012**	**2,221**	**2,361**	**2,648**	**2,902**	**3,160**	**3,404**	**3,661**	**3,944**	**4,229**	**4,533**	**4,854**	**5,194**	**5,486**	**5,774**	**6,075**	**6,390**	**6,720**
% EBIT Margin	41.4%	59.4%	57.7%	58.8%	60.6%	62.7%	65.0%	67.4%	70.0%	72.5%	75.0%	77.6%	80.2%	82.2%	82.1%	82.0%	82.0%	81.9%
Operating taxes	(148)	(464)	(584)	(655)	(718)	(782)	(842)	(906)	(976)	(1,046)	(1,121)	(1,201)	(1,285)	(1,357)	(1,429)	(1,503)	(1,581)	(1,663)
% Marginal tax rate	14.6%	20.9%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%
Decrease (Increase) in operating deferred taxes	32	44	44	44	44	44	44	44	44	44	44	44	44	44	44	44	44	44
NOPLAT	**896**	**1,801**	**1,821**	**2,037**	**2,228**	**2,422**	**2,606**	**2,799**	**3,012**	**3,227**	**3,456**	**3,697**	**3,953**	**4,173**	**4,390**	**4,616**	**4,853**	**5,101**
% NOPLAT Margin	36.7%	48.2%	44.5%	45.3%	46.5%	48.0%	49.8%	51.5%	53.5%	55.3%	57.2%	59.1%	61.0%	62.5%	62.4%	62.3%	62.2%	62.2%
% Growth	(1380.0)%	101.0%	1.1%	11.9%	9.4%	8.7%	7.6%	7.4%	7.6%	7.1%	7.1%	7.0%	6.9%	5.6%	5.2%	5.2%	5.1%	5.1%
Gain (loss) on sale of assets, net	(7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% growth	0.0%	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-operating income (loss), net	23	50	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22
% growth	(1250.0)%	117.4%	(56.3)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OCI: Pension liability adjustment, net of tax of $(8), $3, $3, $7, $	80	(49)	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
% growth	(500.0)%	(161.3)%	(105.1)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reorganization costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Nonoperating Result before Taxes	**96**	**1**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**
Nonoperating Taxes	(136)	(160)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
% of Nonoperating Result before Taxes	(141.9)%	(15967.3)%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%
Total Nonoperating Result	**(40)**	**(159)**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**
NPLAT	**856**	**1,642**	**1,839**	**2,055**	**2,246**	**2,440**	**2,624**	**2,818**	**3,031**	**3,245**	**3,474**	**3,716**	**3,972**	**4,191**	**4,408**	**4,635**	**4,872**	**5,120**
Interest Expense	(397)	(415)	(388)	(467)	(456)	(483)	(510)	(539)	(570)	(601)	(634)	(669)	(704)	(742)	(780)	(820)	(863)	(907)
% of Net Debt (t-1)	4.8%	5.0%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Loss on debt extinguishment	(69)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Shield on both debt and lease interest	99	103	96	116	113	119	126	133	141	149	157	165	174	183	193	203	213	224
Financial Result	**(367)**	**(312)**	**(292)**	**(351)**	**(344)**	**(363)**	**(384)**	**(405)**	**(429)**	**(453)**	**(477)**	**(503)**	**(530)**	**(558)**	**(587)**	**(617)**	**(649)**	**(682)**
Total Comprehensive Income	**489**	**1,330**	**1,547**	**1,703**	**1,903**	**2,077**	**2,240**	**2,412**	**2,602**	**2,793**	**2,997**	**3,212**	**3,442**	**3,633**	**3,821**	**4,017**	**4,223**	**4,437**
Check	TRUE	TRUE																
Net Income	**407**	**1,257**	**1,511**	**1,667**	**1,866**	**2,041**	**2,204**	**2,376**	**2,566**	**2,756**	**2,960**	**3,176**	**3,405**	**3,597**	**3,785**	**3,981**	**4,186**	**4,401**
Shares Outstanding	279	268	244	237	228	219	211	202	194	186	178	171	164	157	150	143	136	
EPS	1.46	4.69	6.19	7.03	8.18	9.31	10.47	11.74	13.23	14.84	16.61	18.59	20.81	22.98	25.31	27.88	30.71	

Table 19: Revenues Forecast Summary

(in million dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
By Segment																		
Management and Franchise Segment	1,767	2,558	2,886	3,224	3,523	3,824	4,106	4,403	4,717	5,046	5,396	5,765	6,155	6,491	6,837	7,198	7,577	7,974
% total	72.3%	68.5%	70.5%	71.6%	73.6%	75.8%	78.4%	81.1%	83.8%	86.5%	89.3%	92.1%	95.0%	97.2%	97.2%	97.2%	97.2%	97.2%
Ownership Segment	598	1,076	1,093	1,149	1,130	1,077	983	875	756	623	477	317	140	-	-	-	-	-
% total	24.5%	28.8%	26.7%	25.5%	23.6%	21.4%	18.8%	16.1%	13.4%	10.7%	7.9%	5.1%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Revenues	79	102	115	127	135	142	147	153	158	164	170	176	182	188	198	208	219	231
% total	3.2%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Total Revenues	**2,444**	**3,736**	**4,094**	**4,500**	**4,787**	**5,043**	**5,236**	**5,431**	**5,631**	**5,834**	**6,044**	**6,258**	**6,478**	**6,678**	**7,034**	**7,407**	**7,797**	**8,205**
Growth	*52.8%*	*52.9%*	*9.6%*	*9.9%*	*6.4%*	*5.4%*	*3.8%*	*3.7%*	*3.7%*	*3.6%*	*3.6%*	*3.5%*	*3.5%*	*3.1%*	*5.3%*	*5.3%*	*5.3%*	*5.2%*

Table 20: Forecasted Management and Franchise Segment Income Statement

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Revenues																		
Franchise and licensing fees	1,493	2,068	2,306	2,559	2,788	3,021	3,239	3,467	3,706	3,957	4,221	4,497	4,787	5,028	5,279	5,540	5,810	6,091
% of revenues	61.1%	55.4%	56.3%	56.9%	58.2%	59.9%	61.9%	63.8%	65.8%	67.8%	69.8%	71.9%	73.9%	75.3%	75.0%	74.8%	74.5%	74.2%
Base and other management fees	176	294	342	392	434	474	512	553	596	643	694	749	808	863	919	979	1,043	1,111
% of revenues	7.2%	7.9%	8.4%	8.7%	9.1%	9.4%	9.8%	10.2%	10.6%	11.0%	11.5%	12.0%	12.5%	12.9%	13.1%	13.2%	13.4%	13.5%
Incentive management fees	98	196	238	272	301	329	355	384	414	446	482	520	561	599	638	680	724	771
% of revenues	4.0%	5.2%	5.8%	6.1%	6.3%	6.5%	6.8%	7.1%	7.4%	7.6%	8.0%	8.3%	8.7%	9.0%	9.1%	9.2%	9.3%	9.4%
Total revenues	**1,767**	**2,558**	**2,886**	**3,224**	**3,523**	**3,824**	**4,106**	**4,403**	**4,717**	**5,046**	**5,396**	**5,765**	**6,155**	**6,491**	**6,837**	**7,198**	**7,577**	**7,974**
Expenses and Other Revenues																		
Other revenues from managed and franchised properties	3,344	5,037	6,598	7,360	8,034	8,713	9,350	10,019	10,726	11,470	12,259	13,092	13,973	14,730	15,511	16,328	17,184	18,080
% Management and Franchise Hotel Gross Revenue	11.7%	12.2%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Direct reimbursements from managed and franchised prope	1,503	2,441																
Indirect reimbursements from managed and franchised prop	1,841	2,596																
Amortization of Management and Franchise Recorded at Merg	(47)	(45)	(36)	(29)	(24)	(19)	(15)	(12)	-	-	-	-	-	-	-	-	-	-
Other expenses from managed and franchised properties	(3,454)	(5,076)	(6,598)	(7,360)	(8,034)	(8,713)	(9,350)	(10,019)	(10,726)	(11,470)	(12,259)	(13,092)	(13,973)	(14,730)	(15,511)	(16,328)	(17,184)	(18,080)
% of revenues	(195.5)%	(198.4)%	(68.0)%	(69.0)%	(71.0)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%	(241.5)%
Total expenses	**(157)**	**(84)**	**(36)**	**(29)**	**(24)**	**(19)**	**(15)**	**(12)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating Income	**1,610**	**2,474**	**2,850**	**3,195**	**3,499**	**3,805**	**4,091**	**4,391**	**4,717**	**5,046**	**5,396**	**5,765**	**6,155**	**6,491**	**6,837**	**7,198**	**7,577**	**7,974**
Operating Margin	91.1%	96.7%	98.7%	99.1%	99.3%	99.5%	99.6%	99.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 21: Forecasted Ownership Segment Income Statement

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Revenues														
Owned and leased hotels	598	1,076	1,093	1,149	1,130	1,077	983	875	756	623	477	317	140	-
% of revenues	24.5%	28.8%	26.7%	25.5%	23.6%	21.4%	18.8%	16.1%	13.4%	10.7%	7.9%	5.1%	2.2%	0.0%
Total revenues	**598**	**1,076**	**1,093**	**1,149**	**1,130**	**1,077**	**983**	**875**	**756**	**623**	**477**	**317**	**140**	**-**
													(55.7)%	(100.0)%
Expenses														
Depreciation on property and equipment	(33)	(29)	(26)	(25)	(24)	(22)	(20)	(17)	(15)	(13)	(10)	(7)	(5)	-
Owned and leased hotels expenses	(679)	(999)	(1,015)	(1,067)	(1,049)	(1,000)	(912)	(813)	(702)	(579)	(443)	(294)	(130)	-
% of Revenues	(113.5)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%	(92.8)%
Total expenses	**(712)**	**(1,028)**	**(1,041)**	**(1,092)**	**(1,072)**	**(1,022)**	**(932)**	**(830)**	**(717)**	**(591)**	**(453)**	**(301)**	**(135)**	**-**
Operating Income	**(114)**	**48**	**52**	**57**	**57**	**55**	**50**	**45**	**39**	**32**	**24**	**15**	**5**	**-**
Operating Margin	(19.1)%	4.5%	4.8%	5.0%	5.1%	5.1%	5.1%	5.2%	5.2%	5.1%	5.1%	4.8%	3.8%	-

Table 22: Forecasted Other Revenues Segment Income Statement

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Revenues																		
Other revenues	79	102	115	127	135	142	147	153	158	164	170	176	182	188	198	208	219	231
% of revenues	3.2%	2.7%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Total revenues	**79**	**102**	**115**	**127**	**135**	**142**	**147**	**153**	**158**	**164**	**170**	**176**	**182**	**188**	**198**	**208**	**219**	**231**
Expenses																		
Depreciation on P&E	(20)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(18)	(18)	(18)	(19)	(19)	(19)	(20)	(20)	(21)	(21)
Amortization Other Intangible Assets	(88)	(71)	(33)	(45)	(59)	(72)	(85)	(97)	(109)	(120)	(131)	(143)	(154)	(167)	(179)	(193)	(207)	(222)
General and administrative	(405)	(382)	(566)	(622)	(662)	(697)	(724)	(751)	(778)	(806)	(835)	(865)	(895)	(923)	(972)	(1,024)	(1,077)	(1,134)
% of revenues	(16.6)%	(10.2)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%	(13.8)%
Other expenses	(45)	(60)	(68)	(74)	(79)	(83)	(86)	(90)	(93)	(96)	(100)	(103)	(107)	(110)	(116)	(122)	(129)	(135)
% of revenues	(1.8)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%	(1.6)%
Gain (loss) on foreign currency transactions	(7)	5	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
% growth	(74.1)%	(171.4)%	(230.0)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OCI: Currency translation adjustment, net of tax of $32, $6, $(8)	(29)	(8)	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
% growth	(176.3)%	(72.4)%	(285.4)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OCI: Cash flow hedge adjustment, net of tax of $(7), $(8), $15, $	31	130	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
% growth	(181.6)%	319.4%	(85.5)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total expenses	**(563)**	**(403)**	**(656)**	**(731)**	**(789)**	**(842)**	**(885)**	**(927)**	**(970)**	**(1,013)**	**(1,057)**	**(1,102)**	**(1,148)**	**(1,192)**	**(1,260)**	**(1,331)**	**(1,406)**	**(1,485)**
Operating Income	**(484)**	**(301)**	**(541)**	**(604)**	**(654)**	**(700)**	**(738)**	**(775)**	**(812)**	**(849)**	**(887)**	**(926)**	**(966)**	**(1,004)**	**(1,062)**	**(1,123)**	**(1,187)**	**(1,254)**
Operating Margin	(612.2)%	(295.0)%	(470.0)%	(477.3)%	(486.0)%	(493.7)%	(500.8)%	(507.0)%	(512.4)%	(517.4)%	(521.9)%	(526.1)%	(530.2)%	(534.5)%	(536.8)%	(539.0)%	(541.1)%	(543.2)%

Table 23: Forecast PPE and Capital Expenditures

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Other Intangible Assets, Net	**194**	**161**	**218**	**286**	**351**	**413**	**471**	**527**	**582**	**637**	**692**	**749**	**809**	**870**	**935**	**1,003**	**1,075**	**1,151**
% of Revenues	7.9%	4.3%	5.3%	6.4%	7.3%	8.2%	9.0%	9.7%	10.3%	10.9%	11.5%	12.0%	12.5%	13.0%	13.3%	13.5%	13.8%	14.0%
Depreciation on property and equipment	53	46	43	42	41	39	37	35	33	31	28	26	24	19	20	20	21	21
% Initial PP&E	15.3%	15.1%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
US	20	17	17	17	17	17	17	17	18	18	18	19	19	19	20	20	21	21
	15.3%	15.1%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
All Other	33	29	26	25	24	22	20	17	15	13	10	7	5	-	-	-	-	-
	15.3%	15.1%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%	15.4%
Amortization	135	116	70	74	83	91	100	109	109	120	131	143	154	167	179	193	207	222
Amortization Other Intangible Assets	88	71	33	45	59	72	85	97	109	120	131	143	154	167	179	193	207	222
% initial other intangible assets	33.1%	36.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%
Amortization of Management and Franchise	47	45	36	29	24	19	15	12	-	-	-	-	-	-	-	-	-	-
% Growth	(71.3)%	(4.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%	(19.3)%
Depreciation and Amortization	**188**	**162**	**113**	**116**	**123**	**130**	**137**	**144**	**141**	**150**	**160**	**169**	**178**	**186**	**199**	**213**	**227**	**243**
Total CAPEX	**79**	**102**	**126**	**146**	**154**	**161**	**166**	**174**	**182**	**191**	**201**	**211**	**222**	**237**	**266**	**284**	**302**	**322**
	3.2%	2.7%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.3%	3.3%	3.4%	3.4%	3.5%	3.8%	3.8%	3.9%	3.9%
Land	9	9																
Buildings and leasehold improvements	365	355																
Furniture and equipment	339	299																
Construction-in-progress	14	24																
% of Development Pipelone (count as of p	0.003%	0.006%																
Finance lease ROU assets	83	82																
% of Revenues	3.4%	2.2%																
Total PP&E	810	769																
Accumulated depreciation and amortization	(505)	(489)																
Net PP&E	**305**	**280**	**272**	**263**	**252**	**240**	**226**	**212**	**198**	**184**	**169**	**154**	**139**	**128**	**131**	**134**	**136**	**139**
% of Revenues	12.5%	7.5%	6.6%	5.8%	5.3%	4.8%	4.3%	3.9%	3.5%	3.2%	2.8%	2.5%	2.1%	1.9%	1.9%	1.8%	1.7%	1.7%
US	112	111	110	110	110	111	113	115	117	119	121	124	126	128	131	134	136	139
% growth	(12.5)%	(0.9)%	(0.9)%	(0.2)%	0.4%	0.9%	1.4%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	2.0%	2.0%
% net PP&E	36.7%	39.6%	40.4%	41.7%	43.6%	46.3%	49.9%	54.1%	59.0%	64.8%	71.7%	80.1%	90.6%	100.0%	100.0%	100.0%	100.0%	100.0%
All Other	193	169	162	154	142	129	113	97	81	65	48	31	13	-	-	-	-	-
% net PP&E	63.3%	60.4%	59.6%	58.3%	56.4%	53.7%	50.1%	45.9%	41.0%	35.2%	28.3%	19.9%	9.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Check	TRUE	TRUE																
	305	280																
Net PP&E & Intangibles	499	441	490	549	603	653	697	739	780	820	862	904	948	999	1,066	1,137	1,211	1,290
% of Revenues	20.4%	11.8%	12.0%	12.2%	12.6%	12.9%	13.3%	13.6%	13.8%	14.1%	14.3%	14.4%	14.6%	15.0%	15.2%	15.3%	15.5%	15.7%

Table 24: Total Forecasted CAPEX

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Total CAPEX	**79**	**102**	**126**	**146**	**154**	**161**	**166**	**174**	**182**	**191**	**201**	**211**	**222**	**237**	**266**	**284**	**302**	**322**
Property and equipment	35	39	35	33	30	27	23	21	19	16	14	11	9	9	22	23	23	24
US	13	15	16	17	17	18	19	19	20	20	21	21	21	22	22	23	23	24
% growth	(24.5)%	20.3%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
All Other	22	24	19	16	12	9	4	2	(1)	(4)	(7)	(10)	(13)	(13)	-	-	-	-
Nº of Owned and Leased Rooms	18,151	17,612	16,911	16,000	14,816	13,430	11,808	10,153	8,465	6,743	4,986	3,195	1,368	-	-	-	-	-
% growth	(6.4)%	(3.0)%	(4.0)%	(5.4)%	(7.4)%	(9.4)%	(12.1)%	(14.0)%	(16.6)%	(20.3)%	(26.0)%	(35.9)%	(57.2)%	(100.0)%	0.0%	0.0%	0.0%	0.0%
Capitalized Software Costs	44	63	90	113	124	134	143	153	164	175	187	200	214	228	244	261	279	298
% growth	(4.3)%	43.2%	43.2%	25.0%	10.0%	8.0%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%

Table 25: Forecast Cash Flow Map

(in millions dollars, as of 31st Dec)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
NOPLAT	896	1,801	1,821	2,037	2,228	2,422	2,606	2,799	3,012	3,227	3,456	3,697	3,953	4,173	4,390	4,616	4,853	5,101
Depreciation and Amortization	188	162	113	116	123	130	137	144	141	150	160	169	178	186	199	213	227	243
Gross Cash Flow	**1,084**	**1,963**	**1,933**	**2,153**	**2,351**	**2,552**	**2,743**	**2,944**	**3,153**	**3,377**	**3,615**	**3,866**	**4,132**	**4,359**	**4,589**	**4,829**	**5,081**	**5,344**
Changes in NWCR	217	75	(221)	(41)	726	(1,178)	(41)	(81)	(19)	(21)	(25)	(28)	(31)	(15)	(11)	(13)	(15)	(17)
Capex, Net	(75)	(104)	(162)	(175)	(177)	(180)	(182)	(187)	(182)	(191)	(201)	(211)	(222)	(237)	(266)	(284)	(302)	(322)
Change in Operating right-of-use assets	78	32	26	34	45	52	61	62	63	65	66	67	69	51	-	-	-	-
Change in Brands	21	43	(48)	(73)	(99)	(101)	(103)	(132)	(162)	(167)	(172)	(177)	(182)	(188)	(193)	(199)	(205)	(211)
Change in Management and Franchise contracts, net	(105)	(129)	(152)	(179)	(200)	(220)	(236)	(252)	(278)	(292)	(307)	(323)	(339)	(350)	(362)	(374)	(388)	(401)
Change in Liability for Guest Loyalty Program	(449)	(32)	221	123	86	58	26	(8)	54	56	57	59	61	63	65	67	69	71
Change in Operating DTLs, net of Operating DTAs	32	44	51	58	41	36	27	28	28	29	30	30	31	28	51	53	55	58
Change in Deferred Revenue	(108)	90	66	86	60	40	18	(6)	38	39	40	41	43	44	45	47	48	49
Change in Goodwill, Net	24	39	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	**(365)**	**58**	**(220)**	**(168)**	**481**	**(1,491)**	**(430)**	**(576)**	**(458)**	**(483)**	**(511)**	**(540)**	**(571)**	**(604)**	**(673)**	**(704)**	**(738)**	**(773)**
Operating Free Cash Flow	**719**	**2,021**	**1,714**	**1,985**	**2,832**	**1,061**	**2,313**	**2,368**	**2,696**	**2,894**	**3,104**	**3,326**	**3,560**	**3,755**	**3,916**	**4,125**	**4,343**	**4,571**
	(40.2)%	181.1%	(15.2)%	15.8%	42.7%	(62.5)%	118.0%	2.4%	13.8%	7.4%	7.3%	7.1%	7.0%	5.5%	4.3%	5.3%	5.3%	5.2%
Total Non Operating Result	(40)	(159)	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Changes in Other assets, net other liabilities	(476)	(128)	(3)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Nonoperating Free Cash Flow	**(516)**	**(287)**	**16**	**17**	**17**	**17**	**17**	**17**	**17**	**17**	**17**	**17**	**16**	**16**	**16**	**16**	**16**	**16**
Free Cash Flow to Investors	**203**	**1,734**	**1,730**	**2,002**	**2,849**	**1,078**	**2,330**	**2,385**	**2,712**	**2,911**	**3,121**	**3,342**	**3,577**	**3,771**	**3,932**	**4,141**	**4,359**	**4,587**
Interest expenses	(397)	(415)	(388)	(467)	(468)	(488)	(524)	(553)	(585)	(616)	(649)	(683)	(719)	(755)	(794)	(835)	(877)	(922)
Loss on debt extinguishments	(69)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Shield on both debt and lease interest	99	103	96	116	116	121	130	137	145	152	161	169	178	187	196	206	217	228
Changes in Net Debt	(14)	187	1,719	25	428	789	635	683	687	715	743	771	800	838	887	931	977	1,026
Net Changes in Equity	178	(1,609)	(3,157)	(1,675)	(2,925)	(1,499)	(2,570)	(2,652)	(2,960)	(3,162)	(3,375)	(3,599)	(3,836)	(4,041)	(4,222)	(4,444)	(4,676)	(4,919)
Dividends paid			157	147	284	269	263	252	242	232	443	425	406	388	371	354	338	323
Share buybacks			3,000	1,529	2,641	1,230	2,308	2,400	2,717	2,930	2,932	3,175	3,429	3,653	3,851	4,089	4,338	4,596
Free Cash Flow from Investors	**(203)**	**(1,734)**	**(1,730)**	**(2,002)**	**(2,849)**	**(1,078)**	**(2,330)**	**(2,385)**	**(2,712)**	**(2,911)**	**(3,121)**	**(3,342)**	**(3,577)**	**(3,771)**	**(3,932)**	**(4,141)**	**(4,359)**	**(4,587)**

Table 26: Transactions with shareholders

(in millions dollars, as of 31st Dec)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Transactions with Shareholders	**3,157**	**1,675**	**2,925**	**1,499**	**2,570**	**2,652**	**2,960**	**3,162**	**3,375**	**3,599**	**3,836**	**4,041**	**4,222**	**4,444**	**4,676**	**4,919**
Dividends paid per share ($)	0.60	0.60	1.20	1.20	1.20	1.20	1.20	1.20	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Dividend yield	0.3%	0.3%	0.6%	0.5%	0.5%	0.4%	0.4%	0.3%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.4%	
Shares before Buyback (# old)	262	245	237	224	219	210	202	193	185	177	169	162	155	148	141	135
Price per share without buyback (P old)	165	188	203	230	248	274	301	331	364	400	439	483	531	584	643	-
Dividends paid	157	147	284	269	263	252	242	232	443	425	406	388	371	354	338	323
Dividend payout ratio	10.4%	8.8%	15.3%	13.2%	12.0%	10.7%	9.5%	8.4%	15.0%	13.4%	12.0%	10.8%	9.8%	8.9%	8.1%	7.4%
Share buybacks (SB)	3,000	1,529	2,641	1,230	2,308	2,400	2,717	2,930	2,932	3,175	3,429	3,653	3,851	4,089	4,338	4,596
New # shares (# new)	245	237	224	219	210	202	193	185	177	169	162	155	148	141	135	-
# shares bought back	17	8	12	5	9	8	9	8	8	8	7	7	7	7	6	135
New price per share (P new)	177	195	214	235	259	285	314	346	380	418	459	505	556	612	674	

Table 27: Scenario Analysis Assumptions

Best Case Scenario

Best Case	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Revenues Growth	11.8%	12.5%	9.3%	7.8%	6.4%	5.6%	5.6%	5.3%	3.8%	3.1%	5.1%	5.4%	5.3%	5.3%	5.3%	5.2%
Management and Frinchise Segment	16.2%	15.5%	13.1%	11.5%	10.4%	9.2%	8.8%	8.5%	7.9%	7.2%	6.4%	5.4%	5.3%	5.3%	5.3%	5.2%
Ownership Segment	1.0%	4.4%	-2.0%	-5.0%	-9.6%	-12.0%	-14.3%	-19.5%	-40.0%	-75.0%	-100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Revenues	13.9%	10.9%	7.5%	5.6%	4.7%	4.6%	4.6%	4.5%	4.4%	3.9%	3.7%	3.1%	5.3%	5.3%	5.3%	5.2%
EBIT Margin	66.1%	64.6%	66.1%	68.7%	71.6%	74.3%	77.0%	79.5%	82.7%	86.0%	87.2%	87.4%	87.3%	87.2%	87.1%	87.1%
Management and Frinchise Segment	98.8%	99.1%	99.4%	99.6%	99.7%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Ownership Segment	5.5%	5.9%	6.5%	6.4%	6.4%	6.5%	6.6%	6.6%	6.5%	5.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Revenues	-203.0%	-339.0%	-387.0%	-395.0%	-397.0%	-399.0%	-401.0%	-402.0%	-403.0%	-404.0%	-407.0%	-410.0%	-412.0%	-418.0%	-419.0%	-421.0%
Marginal Tax Rate (%)	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%
Property and Equipment, net (% Revenues)	5.6%	4.8%	4.3%	3.8%	3.3%	2.9%	2.5%	2.2%	1.8%	1.5%	0.9%	0.9%	0.9%	0.8%	0.7%	0.7%
Brands (% Revenues)	120.4%	111.3%	106.7%	103.4%	101.6%	100.4%	99.7%	99.1%	98.6%	98.1%	97.6%	97.5%	95.4%	93.3%	91.3%	89.4%
Management and Franchise contracts, net (% revenues)	26.4%	28.1%	30.6%	33.5%	36.8%	40.1%	43.7%	47.2%	50.7%	54.2%	57.6%	61.1%	63.2%	65.2%	66.9%	68.5%
Other Intangible Assets, net (% Revenues)	6.3%	7.4%	8.3%	9.2%	10.0%	10.7%	11.3%	11.9%	12.5%	13.0%	13.5%	14.0%	14.3%	14.5%	14.8%	15.0%
Operating Lease Right-of-use Assets (% Revenues)	14.5%	12.4%	10.6%	9.0%	7.5%	6.0%	4.7%	3.3%	2.1%	0.9%	-0.2%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Liability for Guest Loyalty Program (% Revenues)	-40.8%	-40.2%	-39.8%	-39.2%	-38.4%	-37.0%	-36.8%	-36.6%	-36.4%	-36.2%	-36.1%	-36.0%	-35.3%	-34.7%	-34.0%	-33.4%
Operating DTA, net of Operating DTL (% Revenues)	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%	-13.2%
Deferred Revenues (% Revenues)	-29.7%	-29.3%	-29.0%	-28.6%	-28.0%	-27.0%	-26.9%	-26.7%	-26.6%	-26.5%	-26.4%	-26.4%	-25.9%	-25.4%	-25.0%	-24.5%
Depreciation (%NPPE&Intangibles (t-1))	23.0%	21.2%	20.4%	20.0%	19.7%	19.5%	18.1%	18.3%	18.5%	18.7%	18.8%	18.6%	18.7%	18.7%	18.8%	18.8%
NWCR (% revenues)	-36.3%	-32.0%	-45.2%	-19.5%	-18.0%	-15.8%	-14.9%	-14.0%	-13.0%	-12.1%	-11.2%	-10.6%	-9.8%	-9.1%	-8.4%	-7.7%
Other Assets, Net Other Liabilities (% of Revenues)	1.9%	1.9%	1.9%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

Live Case Scenario	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Best																
Total Revenues	**4,175**	**4,697**	**5,133**	**5,532**	**5,888**	**6,220**	**6,566**	**6,916**	**7,179**	**7,404**	**7,780**	**8,199**	**8,636**	**9,093**	**9,572**	**10,073**
Management and Frinchise Segment	2,972	3,433	3,883	4,329	4,780	5,219	5,679	6,161	6,648	7,127	7,583	7,996	8,422	8,868	9,334	9,823
Ownership Segment	1,087	1,135	1,112	1,056	955	840	720	580	348	87	-	-	-	-	-	-
Other Revenues	116	129	139	146	153	160	168	175	183	190	197	203	214	225	237	249
EBIT	2,760	3,034	3,395	3,800	4,217	4,622	5,054	5,496	5,934	6,365	6,781	7,163	7,541	7,927	8,341	8,773
Management and Frinchise Segment	2,936	3,404	3,859	4,310	4,764	5,207	5,679	6,161	6,648	7,127	7,583	7,996	8,422	8,868	9,334	9,823
Ownership Segment	60	67	72	68	61	55	48	38	23	5	-	-	-	-	-	-
Other Revenues	(236)	(437)	(536)	(578)	(608)	(639)	(672)	(704)	(737)	(767)	(802)	(832)	(881)	(941)	(993)	(1,050)
Depreciation	(101)	(106)	(117)	(129)	(141)	(153)	(153)	(167)	(180)	(191)	(201)	(209)	(229)	(245)	(262)	(280)
Operating Taxes	(683)	(751)	(840)	(940)	(1,043)	(1,144)	(1,250)	(1,360)	(1,468)	(1,575)	(1,678)	(1,772)	(1,866)	(1,961)	(2,064)	(2,170)
Increase/Decrease in deferred taxes	(552)	(69)	(58)	(53)	(47)	(44)	(46)	(46)	(35)	(30)	(50)	(55)	(58)	(60)	(63)	(66)
NOPLAT	**1,525**	**2,214**	**2,498**	**2,807**	**3,127**	**3,435**	**3,758**	**4,090**	**4,431**	**4,760**	**5,054**	**5,336**	**5,618**	**5,905**	**6,214**	**6,536**
Gross Cash Flow	**1,627**	**2,320**	**2,615**	**2,936**	**3,268**	**3,588**	**3,911**	**4,257**	**4,611**	**4,951**	**5,255**	**5,545**	**5,847**	**6,150**	**6,476**	**6,816**
NWCR	(1,517)	(1,505)	(2,322)	(1,081)	(1,060)	(984)	(978)	(966)	(936)	(897)	(870)	(868)	(849)	(829)	(806)	(780)
Net PPE	236	228	219	208	195	181	165	149	129	109	74	76	74	73	71	70
Brands (% Revenues)	5,027	5,226	5,479	5,718	5,980	6,243	6,548	6,857	7,077	7,261	7,592	7,993	8,235	8,484	8,741	9,005
Management and Franchise contracts, net (% revenues)	1,102	1,318	1,572	1,852	2,166	2,497	2,870	3,266	3,640	4,009	4,479	5,012	5,460	5,925	6,405	6,903
Other Intangible Assets, net (% Revenues)	264	345	428	508	588	665	744	824	894	961	1,049	1,150	1,234	1,322	1,416	1,514
Operating Lease Right-of-use Assets (% Revenues)	606	581	546	498	440	375	305	231	151	68	(16)	(82)	(86)	(91)	(96)	(101)
Liability for Guest Loyalty Program (% Revenues)	(1,703)	(1,888)	(2,044)	(2,166)	(2,258)	(2,299)	(2,414)	(2,529)	(2,612)	(2,682)	(2,806)	(2,956)	(3,052)	(3,152)	(3,256)	(3,363)
Operating DTA, net of Operating DTL (% Revenues)	(552)	(621)	(678)	(731)	(778)	(822)	(868)	(914)	(949)	(978)	(1,028)	(1,083)	(1,141)	(1,201)	(1,265)	(1,331)
Deferred Revenues (% Revenues)	(1,240)	(1,375)	(1,490)	(1,579)	(1,648)	(1,681)	(1,765)	(1,850)	(1,911)	(1,962)	(2,054)	(2,163)	(2,236)	(2,311)	(2,389)	(2,470)
Other Assets, Net Other Liabilities	81	89	96	103	109	115	121	128	132	137	144	151	158	165	173	180
Goodwill, Net	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032
Invested Capital	**7,337**	**7,430**	**6,837**	**8,362**	**8,766**	**9,322**	**9,762**	**10,228**	**10,647**	**11,056**	**11,595**	**12,263**	**12,829**	**13,417**	**14,026**	**14,660**
Change in IC + D&A	188	199	(476)	1,654	546	709	593	632	600	600	740	877	795	832	872	913
Operating Free Cash Flow	**1,439**	**2,122**	**3,091**	**1,283**	**2,722**	**2,879**	**3,318**	**3,624**	**4,012**	**4,351**	**4,515**	**4,668**	**5,051**	**5,318**	**5,605**	**5,902**

Worst Case Scenario

Worst Case	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Revenues Growth	7.6%	7.9%	4.3%	3.2%	1.5%	1.3%	1.2%	1.0%	0.9%	0.8%	0.6%	0.3%	2.8%	2.8%	2.7%	2.7%
Management and Frinchise Segment	10%	9%	7%	6%	5%	5%	5%	4%	4%	4%	4%	3%	3%	3%	3%	3%
Ownership Segment	0.9%	4.5%	-2.4%	-5.4%	-9.5%	-11.6%	-14.3%	-18.2%	-24.1%	-34.4%	-56.4%	-100.0%	0.0%	0.0%	0.0%	0.0%
Other Revenues	9.9%	6.9%	3.4%	2.4%	0.8%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%	0.1%	2.3%	2.3%	2.3%	2.2%
EBIT Margin	60.3%	56.8%	58.5%	60.5%	62.9%	65.4%	68.2%	70.8%	73.6%	76.6%	79.7%	82.1%	82.0%	82.1%	82.1%	82.1%
Management and Frinchise Segment	98.7%	99.0%	99.3%	99.5%	99.6%	99.7%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Ownership Segment	2.5%	2.8%	3.0%	3.1%	3.1%	3.1%	3.2%	3.2%	3.1%	3.1%	2.8%	1.8%	0.0%	0.0%	0.0%	0.0%
Other Revenues	-345.0%	-520.0%	-527.3%	-536.0%	-543.7%	-550.8%	-557.0%	-562.4%	-567.4%	-571.9%	-576.1%	-580.2%	-584.5%	-586.8%	-589.0%	-591.1%
Marginal Tax Rate (%)	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%	24.7%
Property and Equipment, net (% Revenues)	5.6%	4.8%	4.3%	3.8%	3.3%	2.9%	2.5%	2.2%	1.8%	1.5%	1.1%	0.9%	0.9%	0.8%	0.7%	0.7%
Brands (% Revenues)	116.4%	107.3%	102.7%	99.4%	97.6%	96.4%	95.7%	95.1%	94.6%	94.1%	93.6%	93.5%	91.4%	89.3%	87.3%	85.4%
Management and Franchise contracts, net (% revenues)	23.4%	25.1%	27.6%	30.5%	33.8%	37.1%	40.7%	44.2%	47.7%	51.2%	54.6%	58.1%	60.2%	62.2%	63.9%	65.5%
Other Intangible Assets, net (% Revenues)	4.3%	5.4%	6.3%	7.2%	8.0%	8.7%	9.3%	9.9%	10.5%	11.0%	11.5%	12.0%	12.3%	12.5%	12.8%	13.0%
Operating Lease Right-of-use Assets (% Revenues)	14.5%	12.4%	10.6%	9.0%	7.5%	6.0%	4.7%	3.3%	2.1%	0.9%	-0.2%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Liability for Guest Loyalty Program (% Revenues)	-35.8%	-35.2%	-34.8%	-34.2%	-33.4%	-32.0%	-31.8%	-31.6%	-31.4%	-31.2%	-31.1%	-31.0%	-30.3%	-29.7%	-29.0%	-28.4%
Operating DTA, net of Operating DTL (% Revenues)	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%	-15.2%
Deferred Revenues (% Revenues)	-24.7%	-24.3%	-24.0%	-23.6%	-23.0%	-22.0%	-21.9%	-21.7%	-21.6%	-21.5%	-21.4%	-21.4%	-20.9%	-20.4%	-20.0%	-19.5%
Depreciation (%NPPE&Intangibles (t-1))	22.0%	20.2%	19.4%	19.0%	18.7%	18.5%	17.1%	17.3%	17.5%	17.7%	17.8%	17.6%	17.7%	17.7%	17.8%	17.8%
NWCR (% revenues)	-38.3%	-34.0%	-47.2%	-21.5%	-20.0%	-17.8%	-16.9%	-16.0%	-15.0%	-14.1%	-13.2%	-12.6%	-11.8%	-11.1%	-10.4%	-9.7%
Other Assets, Net Other Liabilities (% of Revenues)	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%

Live Case Scenario	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Worst																
Total Revenues	**4,020**	**4,336**	**4,521**	**4,664**	**4,736**	**4,800**	**4,857**	**4,908**	**4,953**	**4,990**	**5,021**	**5,034**	**5,176**	**5,319**	**5,466**	**5,614**
Management and Frinchise Segment	2,822	3,082	3,290	3,490	3,660	3,833	4,010	4,190	4,376	4,566	4,761	4,901	5,040	5,181	5,324	5,469
Ownership Segment	1,085	1,134	1,106	1,047	948	838	718	587	445	292	128	-	-	-	-	-
Other Revenues	112	120	124	127	128	129	130	130	131	132	133	133	136	139	142	145
EBIT	2,426	2,461	2,646	2,823	2,979	3,137	3,311	3,475	3,645	3,820	4,000	4,131	4,246	4,365	4,487	4,610
Management and Frinchise Segment	2,786	3,053	3,267	3,471	3,645	3,821	4,010	4,190	4,376	4,566	4,761	4,901	5,040	5,181	5,324	5,469
Ownership Segment	27	31	33	32	30	26	23	19	14	9	4	-	-	-	-	-
Other Revenues	(387)	(623)	(653)	(680)	(695)	(709)	(722)	(734)	(745)	(755)	(764)	(770)	(794)	(815)	(837)	(859)
Depreciation	(101)	(85)	(90)	(96)	(101)	(105)	(101)	(106)	(110)	(113)	(117)	(118)	(122)	(128)	(133)	(139)
Operating Taxes	(600)	(609)	(655)	(698)	(737)	(776)	(819)	(860)	(902)	(945)	(990)	(1,022)	(1,050)	(1,080)	(1,110)	(1,141)
Increase/Decrease in deferred taxes	(992)	(60)	(33)	(12)	10	32	(6)	(5)	(4)	(2)	(1)	(2)	(5)	(5)	(5)	(5)
NOPLAT	**833**	**1,792**	**1,958**	**2,112**	**2,251**	**2,393**	**2,486**	**2,611**	**2,740**	**2,873**	**3,009**	**3,107**	**3,190**	**3,280**	**3,372**	**3,465**
Gross Cash Flow	**935**	**1,877**	**2,049**	**2,208**	**2,352**	**2,498**	**2,587**	**2,716**	**2,850**	**2,986**	**3,126**	**3,225**	**3,312**	**3,408**	**3,505**	**3,604**
NWCR	(1,438)	(1,526)	(1,574)	(1,593)	(1,579)	(1,534)	(1,543)	(1,549)	(1,555)	(1,558)	(1,560)	(1,563)	(1,571)	(1,578)	(1,586)	(1,594)
Net PPE	227	210	193	175	157	140	122	106	89	73	58	47	45	43	41	39
Brands (% Revenues)	4,679	4,651	4,644	4,634	4,620	4,626	4,650	4,669	4,684	4,694	4,699	4,706	4,728	4,751	4,773	4,795
Management and Franchise contracts, net (% revenues)	940	1,087	1,249	1,421	1,600	1,783	1,977	2,170	2,362	2,552	2,740	2,926	3,117	3,306	3,494	3,679
Other Intangible Assets, net (% Revenues)	174	232	286	335	378	417	453	487	518	548	576	606	636	667	699	732
Operating Lease Right-of-use Assets (% Revenues)	584	536	481	420	354	289	226	164	104	46	(10)	(50)	(52)	(53)	(55)	(56)
Liability for Guest Loyalty Program (% Revenues)	(1,438)	(1,526)	(1,574)	(1,593)	(1,579)	(1,534)	(1,543)	(1,549)	(1,555)	(1,558)	(1,560)	(1,563)	(1,571)	(1,578)	(1,586)	(1,594)
Operating DTA, net of Operating DTL (% Revenues)	(612)	(660)	(688)	(709)	(720)	(730)	(739)	(747)	(753)	(759)	(764)	(766)	(787)	(809)	(831)	(854)
Deferred Revenues (% Revenues)	(992)	(1,053)	(1,086)	(1,098)	(1,089)	(1,057)	(1,063)	(1,067)	(1,071)	(1,073)	(1,074)	(1,076)	(1,081)	(1,086)	(1,091)	(1,096)
Other Assets, Net Other Liabilities	38	39	39	40	40	41	41	42	42	42	42	43	43	44	44	44
Goodwill, Net	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032	5,032
Invested Capital	**7,193**	**7,022**	**7,002**	**7,064**	**7,214**	**7,472**	**7,615**	**7,757**	**7,898**	**8,039**	**8,179**	**8,341**	**8,540**	**8,737**	**8,933**	**9,128**
Change in IC + D&A	44	(86)	70	158	251	362	244	248	251	254	257	280	321	325	329	334
Operating Free Cash Flow	**891**	**1,962**	**1,979**	**2,050**	**2,102**	**2,135**	**2,343**	**2,469**	**2,599**	**2,732**	**2,869**	**2,945**	**2,991**	**3,083**	**3,176**	**3,270**

References

Chun, S. Y., Iancu, D., & Trichakis, N. (2017). Loyalty Program Liabilities and Point Values*.*
Loyalty Program Liabilities and Point Values by So Yeon Chun, Dan Iancu, Nikolaos Trichakis :: SSRN

Hua, N., Wei, W., L. DeFranco, A., & Wang, D. (2018). Do loyalty programs really matter for hotel operational and financial performance? International Journal of Contemporary Hospitality Management (2018)
https://doi.org/10.1108/ijchm-12-2016-0643

Lee, J. J., Capella, M. L., Taylor, C. R., Luo, M. (Meg), & Gabler, C. B. (2014). The financial impact of loyalty programs in the hotel industry: A social exchange theory perspective. Journal of Business Research
https://doi.org/10.1016/j.jbusres.2014.04.023

*Sanchez, L. (*2019). How Hilton's Growth Strategy Is Delivering Strong Results. Nasdaq.com.
https://www.nasdaq.com/articles/how-hiltons-growth-strategy-is-delivering-strong-results-2019-11-29

Hilton – 2022 Environmental, Social and Governance (ESG) Report*.* (2022)
https://ir.hilton.com/corporate-governance/governance-documents/2020-environmental

AHLA and Accenture (2022) – The year of the "new" traveler
https://www.ahla.com/sites/default/files/AHLA%20SOTI%20Report%202022%201.24.22.pdf

UNWTO. (2021). 2020: Worst Year in Tourism History with 1 Billion Fewer International Arrivals.
https://www.unwto.org/news/2020-worst-year-in-tourism-history-with-1-billion-fewer-international-arrivals

Heliyon - (2021). The impact of COVID-19 outbreak on hotels' value compared to previous diseases: the role of ALFO strategy. *https://doi.org/10.1016/j.heliyon.2021.e07836*

Hotel Tech Report. (2021). Hotel vs. Airbnb: Is that Even the Right Question? Hotel Tech Report.
https://hoteltechreport.com/news/hotel-vs-airbnb

Gitnux.org. Must-Know Airbnb Vs Hotels Statistics. Gitnux.(2023).
https://gitnux.org/airbnb-vs-hotels-statistics/

Guttentag, D. A., & Smith, S. L. J. (2017). Assessing Airbnb as a disruptive innovation relative to hotels: Substitution and comparative performance expectations. International Journal of Hospitality Management
https://doi.org/10.1016/j.ijhm.2017.02.003

Statista. (2020). Effect of online reviews on local business customer opinion.
https://www.statista.com/statistics/315751/online-review-customer-opinion/

Statista. (2022). Travel & Tourism - Worldwide | Statista Market Forecast.
https://www.statista.com/outlook/mmo/travel-tourism/worldwide

Stefi. (2023). Booking.com 2023 Sustainable Travel Report. GSTC.
https://www.gstcouncil.org/booking-com-2023-sustainable-travel-report/

Deloitte European Hotel Industry Survey 2022: Hospitality leaders anticipate rising inflation and labour shortage headwinds
https://www2.deloitte.com/uk/en/pages/press-releases/articles/deloitte-european-hotel-industry-survey-2022-hospitality-leaders-anticipate-rising-inflation-and-labour-shortage-headwinds.html

Oracle Research (2022): 73% of Travelers More Likely to Choose Hotels Offering Self-Service Tech.
https://www.hospitalitynet.org/news/4110830.html

Five ContaCtless Hotel teCHnology trends (2021).
https://skift.com/wp-content/uploads/2020/12/Five-Contactless-Hotel-Technology-Trends-for-2021.pdf

CBRE. (2022). U.S. hotel recovery forecasted to continue despite increasing risks.
https://insights.ehotelier.com/global-news/2022/03/18/u-s-hotel-recovery-forecasted-to-continue-despite-increasing-risks/

Are Hotels a Hedge Against Inflation in the Modern Era? | *By Bram Gallagher*. (2022)
Hospitality Net. https://www.hospitalitynet.org/opinion/4109171.html

Opler, T. (1999). The determinants and implications of corporate cash holdings. Journal of Financial Economics
https://doi.org/10.1016/s0304-405x(99)00003-3

Damodaran, A. (2023). Equity Risk Premiums (ERP): Determinants, Estimation and Implications - The 2023 Edition. SSRN Electronic Journal.
https://doi.org/10.2139/ssrn.4398884

Moody's (2023) - credit ratings, research, and data for global capital markets.
https://www.moodys.com/research/doc--PBC_1357792

Disclosures and Disclaimers

Report Recommendations

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.

This report was prepared by [*insert student's name*], a Master in Finance student of Nova School of Business and Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

This report is issued and published exclusively for academic purposes, namely for academic evaluation and master graduation purposes, within the context of said Field Lab – Equity Research. It is not to be construed as an offer or a solicitation of an offer to buy or sell any security or financial instrument.

This report was supervised by a Nova SBE faculty member, acting merely in an academic capacity, who revised the valuation methodology and the financial model.

Given the exclusive academic purpose of the reports produced by Nova SBE students, it is Nova SBE understanding that Nova SBE, the author, the present report and its publishing, are excluded from the persons and activities requiring previous registration from local regulatory authorities. As such, Nova SBE, its faculty and the author of this report have not sought or obtained registration with or certification as financial analyst by any local regulator, in any jurisdiction. In Portugal, neither the author of this report nor his/her academic supervisor is registered with or qualified under COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS ("CMVM", the Portuguese Securities Market Authority) as a financial analyst. No approval for publication or distribution of this report was required and/or obtained from any local authority, given the exclusive academic nature of the report.

The additional disclaimers also apply:

USA: Pursuant to Section 202 (a) (11) of the Investment Advisers Act of 1940, neither Nova SBE nor the author of this report are to be qualified as an investment adviser and, thus, registration with the Securities and Exchange Commission ("SEC", United States of America's securities market authority) is not necessary. Neither the author nor Nova SBE receive any compensation of any kind for the preparation of the reports.

Germany: Pursuant to §34c of the WpHG (*Wertpapierhandelsgesetz*, i.e., the German Securities Trading Act), this entity is not required to register with or otherwise notify the *Bundesanstalt für Finanzdienstleistungsaufsicht* ("BaFin", the German Federal Financial Supervisory Authority). It should be noted that Nova SBE is a fully-owned state university and there is no relation between the student's equity reports and any fund raising programme.

UK: Pursuant to section 22 of the Financial Services and Markets Act 2000 (the "FSMA"), for an activity to be a regulated activity, it must be carried on "by way of business". All regulated activities are subject to prior authorization by the Financial Conduct Authority ("FCA"). However, this report serves an exclusively academic purpose and, as such, was not prepared by way of business. The author - a Master's student - is the **sole and exclusive responsible** for the information, estimates and forecasts contained herein, and for the opinions expressed, which exclusively reflect his/her own judgment at the date of the report. Nova SBE and its faculty have no single and formal position in relation to the most appropriate valuation method, estimates or projections used in the report and may not be held liable by the author's choice of the latter.

The information contained in this report was compiled by students from public sources believed to be reliable, but Nova SBE, its faculty, or the students make no representation that it is accurate or complete, and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or of its content.

Students are free to choose the target companies of the reports. Therefore, Nova SBE may start covering and/or suspend the coverage of any listed company, at any time, without prior notice. The students or Nova SBE are not responsible for updating this report, and the opinions and recommendations expressed herein may change without further notice.

The target company or security of this report may be simultaneously covered by more than one student. Because each student is free to choose the valuation method, and make his/her own assumptions and estimates, the resulting projections, price target and recommendations may differ widely, even when referring to the same security. Moreover, changing market conditions and/or changing subjective opinions may lead to significantly different valuation results. Other students' opinions, estimates and recommendations, as well as the advisor and other faculty members' opinions may be inconsistent with the views expressed in this report. Any recipient of this report should understand that statements regarding future prospects and performance are, by nature, subjective, and may be fallible.

This report does not necessarily mention and/or analyze all possible risks arising from the investment in the target company and/or security, namely the possible exchange rate risk resulting from the security being denominated in a currency either than the investor's currency, among many other risks.

The purpose of publishing this report is merely academic and it is not intended for distribution among private investors. The information and opinions expressed in this report are not intended to be available to any person other than Portuguese natural or legal persons or persons domiciled in Portugal. While preparing this report, students did not have in consideration the specific investment objectives, financial situation or particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in any security, namely in the security covered by this report.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the target company and its securities. He/ She has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

[If applicable, it shall be added: *"While preparing the report, the author may have performed an internship (remunerated or not) in* [insert the Company's name]. *This Company may have or have had an interest in the covered company or security"* and/ or *"A draft of the reports have been shown to the covered company's officials (Investors Relations Officer or other), mainly for the purpose of correcting inaccuracies, and later modified, prior to its publication."]*

The content of each report has been shown or made public to restricted parties prior to its publication in Nova SBE's website or in Bloomberg Professional, for academic purposes such as its distribution among faculty members for students' academic evaluation.

Nova SBE is a state-owned university, mainly financed by state subsidies, students tuition fees and companies, through donations, or indirectly by hiring educational programs, among other possibilities. Thus, Nova SBE may have received compensation from the target company during the last 12 months, related to its fundraising programs, or indirectly through the sale of educational, consulting or research services. Nevertheless, no compensation eventually received by Nova SBE is in any way related to or dependent on the opinions expressed in this report. The Nova School of Business and Economics does not deal for or otherwise offer any investment or intermediation services to market counterparties, private or intermediate customers.

This report may not be reproduced, distributed or published, in whole or in part, without the explicit previous consent of its author, unless when used by Nova SBE for academic purposes only. At any time, Nova SBE may decide to suspend this report reproduction or distribution without further notice. Neither this document nor any copy of it may be taken, transmitted or distributed, directly or indirectly, in any country either than Portugal or to any resident outside this country. The dissemination of this document other than in Portugal or to Portuguese citizens is therefore prohibited and unlawful.