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

Blackstone Leverage Buy Out of Hilton Hotels Corporation:

"Put your money where your mouth is"

Salvador das Neves Carmona

51803

A Project carried out on the Masters in Finance program,

under the supervision of:

Paulo Soares de Pinho

January 22nd, 2025

Abstract

This case study discusses the leveraged buyout (LBO) of Hilton Hotels Corporation, a multinational firm well known in the hospitality industry as leisure, business travel services or even events provided. The focus areas of the case are the incentives for the LBO, its correlated investment thesis, and subsequent decision based on its risk adjusted measured payoff on private equity returns, and the value creation process. In addition, the investing part of the decision of entering an LBO and whether a high ranking private equity fund sees space to deliver substantial expected returns to its limited partners.

Keywords: *Private Equity, LBO, Hospitality Industry, Hilton Hotels Corporation, Value Creation Returns, Financing of an LBO.*

Case Study

Introduction

The calendar marks 3rd July of 2007, an important and decisive date for Blackstone. The past months have been of great effort and intensity for Jonathan D. Gray, Senior Managing Director and Co-Head of Blackstone Real Estate, and his team. For many nights, after constant and tough negotiations Jonathan D. Gray reflected in the New York Blackstone headquarters about what could be a gamechanger deal not only for Blackstone but even for the hospitality sector itself. The deal in question was a possible leverage buyout of a major hospitality firm: Hilton Hotels Corporation.

By July 2007, Blackstone was considering an all cash offer of $47.50 per share. The transaction promised scale, brand power and real estate value, but it also carried substantial leverage risk, in addition to the intrinsic disruptions of the hospitality sector. The firm's CEO, Stephen A. Schwarzman, and the investment committee expected a rigorous assessment of whether the deal could deliver targeted returns of around 25% IRR within five years.

For Gray, the pressure was mounting. Blackstone had recently raised large amounts of capital, and limited partners expected their capital to be deployed wisely. Yet, macroeconomic uncertainty and increasing competition in the luxury hotel segment raised concerns about timing and risk exposure.

As the clock approached the final meeting with Hilton's Hotel Corporation executives, Gray and his team faced the pivotal decision: Should Blackstone put forward the $47.50 per share bid and pursue the acquisition or step back from what could either be a landmark success or a costly overreach?

The Players

<u>Blackstone Group L.P</u>

The Blackstone Group L.P., founded in 1985 in New York, was by 2007 the world's largest private equity or alternative asset management firm, with assets under management exceeding 102.4 billion dollars. Moreover, with a consistent record of generating fund IRRs above 25% for his LP´s, the firm ranked among the most experienced and financially capable sponsors in the leveraged buy out market. **(Exhibit 1)**

By the middle of 2000s, Blackstone's two principal structures were Blackstone Capital Partners (BCP), focused on corporate private equity, and Blackstone Real Estate Partners (BREP), targeting pure real estate assets. For Hilton Hotels Corporation, the proposed corporative structure responsible for a possible leverage buyout would be obviously BCP, as it was a targeted business with corporate brand operations.

This latter mentioned structure of Blackstone was composed of several timely vehicles: the funds. The first BCP I that lasted until 1993 achieved an IRR of approximately 19% for his LP´s, while BCP II that consequently lasted from 1993 until 1997 returned around 32% IRR for his LP´s. BCP III and BCP IV also delivered high value prospects.

In 2006, BCP V, at the time the current vehicle reached $15.6 billion in commitments, among the largest funds globally. That same year, Blackstone generated approximately $2.27 billion in net income, underlining its profitability ahead of its 2007 IPO. The reporting of high valuable returns by the private equity firm positioned Blackstone into a compelling stage for financing raising necessary for the LBO.

Blackstone, in LBO´s processes and negotiations, including the possible one related to Hilton Hotels Corporation, was represented by the persona of Jonathan D. Gray. The targeted firm seems to have potential overall, although Blackstone is in a dilemma. As the hospitality market reaches all time highs, and is in a rapid ascending period, Gray is not certain if the risks of a downside scenario or macroeconomic risks can guarantee the success of the leverage buyout project, especially given the additional leverage risks. **(Exhibit 2)**

The Target

Hilton Hotels Corporation

Hilton Hotels Corporation, headquartered in Beverly Hills, California, was by 2007 one of the leading global hospitality companies operating with 2901 properties with roughly 490,000 rooms across 76 countries and territories. Its diversified portfolio encompasses well established brands such as Hilton, Hilton Garden Inn, DoubleTree, Embassy Suites, Homewood Suites, Hampton, Conrad, and the Waldorf Astoria Collection, along with the timeshare business Hilton Grand Vacations. Stephen F. Bollenbach was the person that ultimately represented Hilton Hotels Corporation in the operating and guidance decisions, or even strategic capital market moves. **(Exhibit 2)**

For the 2006 fiscal year ended December 31, Hilton reported revenues of $8.16 billion, a sharp increase from $4.44 billion in 2005, mainly driven by the consolidation of Hilton International, acquired earlier that year. The company generated an EBITDA of $1.715 billion and net income of $572 million, reflecting a sustained organic growth **(Exhibit 3).**

The latest biggest step for Hilton Hotels Corporation in these recent years has been the acquisition of Hilton International, a previous body that was reacquired by December 2005 and was essentially the international rights of Hilton Hotels Corporation outside the USA. The acquisition moved $5.7 billion.

Hilton’s operations ranged from five segments: owned hotels, leased hotels, management and franchise fees, also timeshare, and lastly other income. From the mentioned, the ones that had a large percentage of the overall revenues were owned and leased hotels, showing that the business model of Hilton was essentially of heavy capital intensity and high obligations.

Although the main operations of Hilton Hotels Corporation were still delivered by the traditional hospitality business models, there were rising segments that even not predominant showed space for a disruption in the business model. First, the franchising segment with already some presence, especially worldwide, leveraging the firm's brand name while not exposed to operational risks and management issues. Second, the timeshare segment in which clients could own a share of a specific hotel or villa accommodations or own the right to use them under a specific timeframe of the year, which again levered the name power and had the particularity of also having in part maintenance expenses covered by the clients.

From the past years, Hilton pursued organic growth and strategic acquisitions to strengthen its global footprint and its operational strategy focused on expanding into high growth regions, enhancing brand consistency, and maximizing revenue per available room (RevPAR) through its strategic assets locations and expertise with the goal of a balance of stable cash flows and growth potential.

At 2007, Hilton positioned itself as the 4th biggest brand of the world in number of hotels rooms and had such outstanding strengths such as the innovative technological system since 2002 called CRM (Customer Really Matters) where the clients interaction records were used for customized services. In addition, its loyalty programs promoted smooth revenues in its predictability in exchange for benefits and discounts to its adherents. It's also noteworthy the broad range of types of hotels that penetrate all kinds of interests, with also several amenities to give comfort like fitness, technology and business infrastructure **(Exhibit 4).**

Outlooks of the most prestigious consultancy and hospitality associations in a business as usual scenario showed revenue growth rates of around 4% predicted for 2007 and 2008 , in the same direction of past years growths behaviour (1% below the RevPAR growth rate) (**Exhibit 5** presenting Hilton Hotel Corporation financial projections for a Business-as-Usual Scenario, **Exhibit 6** presenting Hilton Hotel Corporation financial information as of July 3rd, 2007, **Exhibit 7** presenting Capital Markets Data by July 3rd of 2007, **Exhibit 8** presenting a Comparable Companies' Analysis for Hilton Hotels Corporation by July 3rd, 2007).

Despite these strengths and high potential platforms, Hilton Hotels Corporation faced some challenges and threats to their ambitions. First, the expansion to fast growing economies needed to be more robust to have a competitive advantage and benefit from first entry position. Moreover, the brand has been benefiting from the hospitality industry growth but needs to be prepared for recession scenarios. In other words, there was still a lot of potential progress in cost optimization, further digitalization of the brand, and technical gadgets. To keep its high recognition in such a premium market, the brand needed to keep being innovative and delivering the best possible services to its clients.

Endlessly, the firm is exposed to typical hospitality risks, including sensitivity to economic cycles, regional demand fluctuations, and regulatory and compliance challenges, particularly across international markets that all the hospitality has on its well-known record. Hilton itself always warned its investors about the pattern of having the first quarter of every year of its operations lower revenues compared with other quarters.

Industry Momentum

The global hospitality industry sets out a period of sustained growth and optimism, supported by favourable economic conditions, rising global travel demand, and increasing capital investment. Benefiting from strong GDP growth across most countries, a growing middle class in emerging markets, and greater accessibility to international travel. Global hotel revenues and occupancy rates show record highs. The middle 2000´s were for sure of great momentum with fast growing economies carrying most of this growth, especially the Asia & Pacific Market at late years growing between 15% and 30% yearly. **(Exhibit 9)**

In the United States, the industry has continued its strong recovery from the traumatic 9/11 event, that took out trust. Both revenue per available room (RevPAR) and average daily rate (ADR) have been increasing for the fourth consecutive year, with RevPAR growing by approximately 6% year over year in 2006. Demand was driven by corporate travel, group conventions, and continued expansion in leisure tourism.

On a global scale, hotel performance varies by region. Europe experiences healthy growth, particularly in major cities. Asia-Pacific emerged as the fastest, with China and India witnessing massive growth in international arrivals, reflecting rising disposable incomes and government investment in tourism infrastructure. Lastly, Latin America delivers a good outlook trough higher diversification segment of tourism.

In a fast integrated globalized world, models supported in franchising and management contracts became key growth engines, allowing global brands to scale while local owners bore much of the investment risk.

Furthermore, technological innovation was a key factor. The internet changed the hospitality markets. First, to not be so dependent on physical travel agencies old bargaining power, and although this gave more comfort for the hotel chains, it raised another. Which was the fact that clients desired a more customized and integrated experience, opting many times for digital travel agencies websites. This put some pressure on hotels chains with the fees these agencies charged when they were the intermediaries.

It's noteworthy to denote that the hotels had a very diversified role when jumping into the mid 2000´s beyond the core role of accommodation. They expanded into lifestyle and experience hubs englobing wellness, gastronomy, entertainment, and business to attract a broader clientele. The rise of corporate travel also positioned hotels as essential infrastructure for global commerce. This multifaceted role marked a shift of hotels from mere accommodation providers to diversified brand driven enterprises. A well known case maximization of this insight concept is the several "Villas" that were not just hotels or condominiums, but authentic cities with supermarkets, coffee shops, restaurants, clothing brands, fitness centers, spas, casinos and discos. Hotels were not just a place to stay overnight, but to spend most of your life inside it. Even beyond that: to bring people and the life that is outside the hotel. For these reasons, the other services segment should be among the ones with higher growth.

The hospitality market has as outlooks for the next few years revenue growths of 5% for 2007 and 4,2% for 2008, based on estimated growths in RevPAR of 5,0% and 4,2% respectively. When comparing to the previous 3 years of constant 8% in revenue growth with RevPAR growth of 7%, the sector experiences a deceleration due to a very high peak momentum in later years.

But there were also threats. Seasonality creates significant fluctuations in occupancy and revenue, which demands deep analysis strategies especially when having a global presence with so many diverse conditions. Plus, given the sector high fixed costs in property maintenance, these cycles placed pressure on profitability and cash flow management.

At the same time, the industry was potentially vulnerable to geopolitical and macroeconomic disruptions that could affect cash flows. The comeback of topics like the 9/11 attacks, and instability in the Middle East could erode the consumers confidence and international mobility, and consequently occupancy and investor sentiment. These risks should always be kept in mind.

Hilton Hotels Leveraged Buyout

Investment Thesis and Rationale

In 2007, Blackstone Group identified Hilton Hotels Corporation as a unique opportunity to acquire a global leader in hospitality at the peak of a strong travel cycle and to unlock value embedded in its extensive brand portfolio and real estate assets. The firm believed that Hilton's market position, international scale, and strategic assets made it a strong platform for long term growth in both developed and emerging markets. At the time, Blackstone justified the potential of Hilton Hotels Corporation with a possible lighter asset business model. Hilton Hotels Corporation had most of its value on its brands recognition, rather than on pure real estate assets. A lighter business model would maximize the Hilton Hotels Corporation true potential. Less capital needs exposure and more brand recognition leverage.

Hilton's portfolio of world renowned brands, ranging from luxury to midscale, provided diversified revenue streams. Almost all possible client segments recognized that their previous experience at Hilton Hotel Corporation was kept in mind for its customization procedures and excellence of services. The Hilton chain distinguished itself a lot by its services of excellence. Moreover, its loyalty program and management expertise offered a strong foundation for expansion as they had already innumerous contact chains.

Nevertheless, Blackstone saw substantial space for value creation improvements. First, to enhance operational efficiency through scale approaches and cost optimization procedures. Hilton had fame for excellent service, but if not well coordinated could lead to high costs due to losses in waste. Secondly, Blackstone defined as crucial to shift towards more franchising and management contracts. Exposing the brand to fast growth without taking a lot of time to reach it, neither high capital intensity needs nor risks. The direct expected result was to put Hilton as with first mover advantage in many locations with the consequently higher margins.

Thirdly, to diversify its geographic locations into fast pace emerging countries instead of the already substantial saturated occidental world. Finally, Blackstone with its expertise would look also at possible opportunistic assets sales and debt financing, leveraging its financial engineering knowledge in property management. (**Exhibit 10** provides Blackstone expectations in financial terms for Hilton operational activity with the LBO).

Blackstone was also substantially comfortable on choosing the correct profile to spread these changes across Hilton Hotel Corporation operations, due to the fact Blackstone had already in the past acquisition deals on the hospitality market of success, even if not on the same scale, like La Quinta, Wyndham, and others. For that purpose, they would choose Christopher Nassetta as the new profile of leadership of both the board of directors and the management team in exchange to Stephen Bollenbach, if the deal proceeds.

Within Blackstone's team, discussions emerged around how best to secure Hilton's key executives through the transition from public to private. The firm's investment thesis depended on management ability to deliver operational improvements, expand internationally, and strengthen the company brand. The achievemnet of these goals required a compensation structure that could both motivate performance and sustain commitment over several years, even under financial pressure.

Blackstone considered critical to the success of the investment retaining and motivating the management team. However, designing incentives under a leveraged structure raised difficult questions. In one hand, high fixed salaries could erode cash, while on the other overly aggressive variable pay might encourage short-term decisions or excessive risk taking.

Leveraging Hilton Hotels Corporation

Blackstone to enhance the potential value creations, would leverage them as much as possible to maximize the return of its assets with scale, by bringing substantial debt capital into the deal, although disciplined by debt repayment terms and cash flow optimization. This debt would be financed through different credit options.

First, senior secured term loans ranked highest in the capital structure and backed by Hilton's vast portfolio of owned and managed real estate assets across the globe. As they were backed by a high value collateral in case of default the interest rates to be paid upon this option of debt financing would be obviously the lowest ones.

Secondly, and complementing these facilities, Blackstone also would raise mezzanine financing, which broken down was composed of subordinated notes with a portion of interest payable in kind (PIK), which carried higher yields but was subordinate to senior debt, reflecting the risk return balance typical in large scale buyouts. A revolving credit facility was also established to ensure liquidity for day to day operations and seasonal cash flow fluctuations within Hilton's diverse hotel network.

The appropriate mix of the proportions of these components was a key factor to minimize the cost of financing. It's as so noteworthy to say that leverage was crucial the deal, both from the maximization of the value creation, as for the minimization of the cost of capital.

Despite the aggressive leverage, covenant protection was critical to mitigate creditor risk. It would be almost impossible to gather such a vast debt portion without conditions that guaranteed some standard intervals for solvency, ensuring the company maintained sufficient operational performance to service its obligations. (**Exhibit 11 and Exhibit 12** present correspondingly the expected debt terms and expected covenant levels for a 47,5$ offer and an X bid offer).

In the other hand the equity contribution was composed of Blackstone's funds, structured as a mix of ordinary equity and shareholder loans accruing interest over time, with a small allocation reserved for management. The use of the funds had in mind the company's valuation assessment and was supported under a possible bid offer (**Exhibit 13 and Exhibit 14** present correspondingly the sources and uses of funds for an offer at 47,5$ per share and an X bid offer).

Through this financing structure, Blackstone aimed to generate considerable returns by leveraging Hilton's cash flows and brand recognition. The firm targeted an IRR of 25% for his LP´s, assuming successful execution of operational improvements, international expansion, and strategic capital management.

Decision: "Put your money where your mouth is"

By 3 July morning, after many months of negotiations, Blackstone Senior Managing Director and Co-Head of Blackstone Real Estate, Jonathan D. Gray, responsible for accessing the viability of what Blackstone's broader team taught as an opportunity, is in a dilemma. He has at the same day, but on late afternoon, scheduled what he thinks is the ultimate meeting with Hilton Hotel after the long intense negotiations to decide whether they can reach an agreement with a merger deal or not in terms of a leverage buyout.

He as leader developed with Blackstone team deep inquiries, analysis and forecasts as also financial models to sustain his decision. First thing in the morning, he had a conversation with his hierarchy, CEO Stephen A. Schwarzman, as this meeting would take a big step for the private equity fund future. In which Stephen A. Schwarzman responded as the last phrase of their conversation: "Put your money where your mouth is".

Jonathan D. Gray known for his deep analysis mindset, is still hesitant, as he asks himself: Will the proposal of 47,5$ per share in an all cash transaction, enable Blackstone to exit the deal in five years time with the expected returns to their limited partners? Or will it open space for lower returns and not predicted risks arising, placing Blackstone in a very complicated deal?

Case End Notes

(1) "LP´s" (Limited Partners) stands for the investors in a private equity fund who provide the majority of the capital.

(2) *"Blackstone Capital Partners (BCP)" is one of the structures designed by Blackstone Group L.P in its operations, focused on specific corporate private equity deals whether "Blackstone Real Estate Partners (BREP)" is one of the structures designed by Blackstone Group L.P in its operations, focused on real estate*

(3) "Hilton International" is a firm that was reacquired by Hilton Hotels Corporation, which was in the past a previous body of Hilton Hotels Corporation itself but was slipped by Conrad Hilton at one time.

(4) *"RevPAR" (Revenue per Available Room) is a key performance metric in the hotel industry, indicating overall revenue efficiency.*

(5) "ADR" (Average Daily Rate) represents the average revenue earned per occupied room being a key indicator of hotel pricing performance.

Teaching Note

Suggested Teaching Plan

This case is designed for a Private Equity, M&A, Corporate Finance or Applied Corporate Finance course. For useful research and understanding, the case should be presented with accompanied information such as the financial literature: Barber, F.G. & Yasuda, A., 2020. *Private equity, capital markets, and value creation. Annual Review of Financial Economics;* Braun, R., Jenkinson, T. & Stoff, I., 2017. *How persistent is private equity performance.*

funds of private debt, used also many of them for the financing of this deal, praising as so both an LBO deal, and private debt funds investors.

References

Roberts, M. J., 2001. *Developing a teaching case.* Boston: Harvard Business School Publishing.

Hilton Hotels Corporation. 2004. *Annual Report 2004*. Retrieved from SEC.gov;

Hilton Hotels Corporation. 2005. *Annual Report 2005*. Retrieved from SEC.gov;

Hilton hotels Corporation. 2006. *Annual Report 2006*. Retrieved from SEC.gov;

Hilton Hotels Corporation. 2007. *Halfway Report 2007,* Retrieved from SEC.gov;

Hilton Hotels Corporation. 2007. First *Quarter Report 2007,* Retrieved from SEC.gov;

Hilton Hotels Corporation. 2007. *LBO proxy statement deal,* Retrieved from SEC.gov;

Blackstone Inc. 2007. *Annual Report*. Retrieved from SEC.gov

Blackstone Inc. 2007. *IPO Report*. Retrieved from SEC.gov

Blackstone. 2007. *Investment Thesis for Hilton Hotels LBO.* Retrieved from Bloomberg;

Bloomberg L.P. 2007. *"USD LIBOR Rates"* Retrieved from Bloomberg.

Treasury.gov. 2007. Daily Treasury Par Yield Curve Rates. Accessed October 2025: https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2025

S&P Global. March 2007. Hilton Hotels Corporation Upgraded to "BB+". Acessed on November 2025: https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/4115310?utm_source=chatgpt.com

Damodaran, A. (n.d.). Market Implied Risk Premiums (US). NYU Stern School of Business. Retrieved from: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histimpl.html?utm_source=chatgpt.com

PKF-HR. 2007. *PKR-HR Report Outlook for 2007 and 2008. Accessed October 2025:* https://www.htrends.com/trends-detail-sid-29167.html?utm_source=chatgpt.com

Marriot International, Inc. 2006. *Annual Report 2006,* Retrieved from SEC.gov;

Marriot International, Inc. 2006. *Annual Report 2006,* Retrieved from Bloomberg;

Marriot International, Inc. 2007. *Halfway Report 2007,* Retrieved from Retrieved from Retrieved from SEC.gov;

Marriot International, Inc. 2007. *Halfway Report 2007,* Retrieved from Retrieved from Bloomberg;

Marriot International, Inc. 2007. *Financial Information,* Retrieved from Yahoo Finance;

Choice Hotels International, Inc. 2006. *Annual Report 2006,* Retrieved from SEC.gov;

Choice Hotels International, Inc. 2006. *Annual Report 2006,* Retrieved from Bloomberg;

Choice Hotels International, Inc. 2007. *Halfway Report 2007,* Retrieved from SEC.gov;

Choice Hotels International, Inc. 2007. *Halfway Report 2007,* Retrieved from Bloomberg;

Choice Hotels International, Inc. 2007. *Financial Information,* Retrieved from Yahoo Finance;

Starwood Hotels Resorts. 2006. *Annual Report 2006,* Retrieved from SEC.gov;

Starwood Hotels Resorts. 2006. *Annual Report 2006,* Retrieved from Bloomberg;

Starwood Hotels Resorts. 2007. *Halfway Report 2007,* Retrieved from Retrieved from Retrieved from SEC.gov;

Starwood Hotels Resorts. 2007. *Halfway Report 2007,* Retrieved from Retrieved from Bloomberg;

Starwood Hotels Resorts. 2007. *Financial Information,* Retrieved from Yahoo Finance;

UNTWO and World Bank. 2007. Asia & Pacific Tourism Receipts, Accessed October 2025: *https://data.worldbank.org/indicator/ST.INT.RCPT.CD?locations=Z4*

KPMG. 2007. *Tax rates historical records and outlook for 2007 and 2008.* Retrieved from: *https://www.in.kpmg.com/pdf/CorpTaxRateSurvey2007.pdf?utm_source=chatgpt.com*

Mizuho Research Institute. 2007. Economic Outlook for FY2007 and FY2008. Accessed October 2025: *https://www.mizuhogroup.com/binaries/content/assets/pdf/information-and-research/insights/mhri/economicoutlook0702.pdf?utm_source=chatgpt.com*

OECD *Economic Surveys*. 2007. *United States 2007* (May 2007) Accessed October 2025: https://www.oecd.org/content/dam/oecd/en/publications/reports/2007/05/oecd-economic-surveys-united-states-2007_g1gh759b/eco_surveys-usa-2007-en.pdf

Mota Duarte, L. (2025). *Private Equity course*. Nova School of Business and Economics;

Bloomberg. 2025. *Blomberg Professional*;

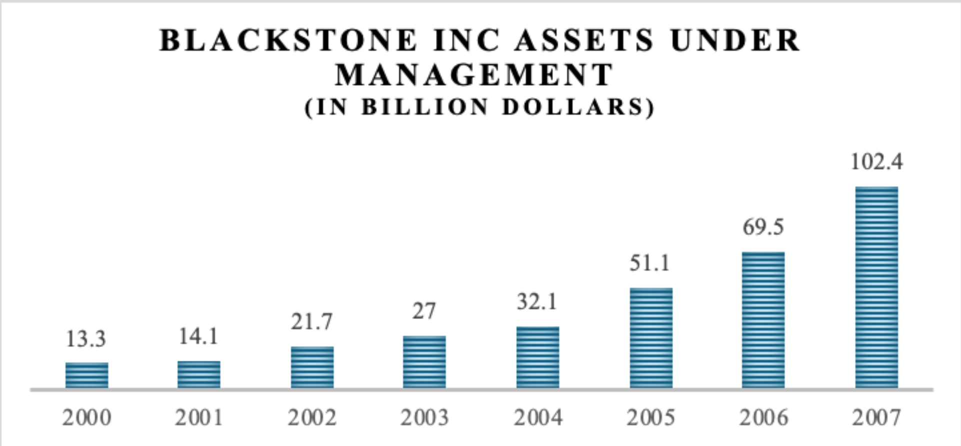
Braun, R., Jenkinson, T. & Stoff, I., 2017. *How persistent is private equity performance. Journal of Financial Economics,*

Barber, F.G. & Yasuda, A., 2020. *Private equity, capital markets, and value creation. Annual Review of Financial Economics,* Metrick, A. & Yasuda, A., 2021. *The economics of private equity funds: A review. Foundations and Trends in Finance,*

Knowledge@Wharton. (2009). *Why economists failed to predict the financial crisis*. The Wharton School, University of Pennsylvania.

Appendix

Exhibit 1 - Blackstone Inc Assets Under Management



Source: Blackstone Inc IPO Report (May, 2007) and Annual Report (2007) through SEC.gov

Exhibit 2 - Jonathan D. Gray and Stephen F. Bollenbach Snapshot

Jonathan D. Gray: Gray began his career at The Blackstone Group in 1992, after graduating from the Wharton School of the University of Pennsylvania with a degree in economics. Joining the firm's real estate private equity division, he quickly distinguished himself through his analytical and strategic skills, contributing to Blackstone's emergence as a global leader in real estate investment. By the early 2000s, Gray had become Senior Managing Director and Co-Head of Blackstone Real Estate, overseeing major hospitality and property acquisitions, including Extended Stay America, La Quinta Inns, and MeriStar Hospitality. By 2007, he was recognized as one of the most influential figures in the private equity real estate sector, known for his disciplined deal-making and ability to identify high-potential, asset-backed opportunities. His leadership placed him at the forefront of evaluating the potential leveraged buyout of Hilton Hotels Corporation.

Stephen F. Bollenbach served as Co-Chairman and Chief Executive Officer of Hilton Hotels Corporation, a position he had held since 1996. Before joining Hilton, Bollenbach built a distinguished career in the hospitality and finance industries, holding senior executive roles at The Trump Organization, Holiday Corporation, and Marriott Corporation, as well as serving as Chief Financial Officer of The Walt Disney Company, where he played a major role in the landmark acquisition of Capital Cities/ABC. At Hilton, Bollenbach led an ambitious expansion strategy that included the acquisition of Hilton International in 2006, reuniting the global Hilton brand for the first time in four decades. In 2007, as CEO, Bollenbach was the key executive representing Hilton in negotiations with The Blackstone Group, weighing the potential benefits and strategic implications of the proposed leveraged buyout.

Source: Bloomberg

Exhibit 3 - Hilton Hotels Corporation Consolidated Financial Statements

Income Statement - year ended 31 December (in millions of dollars, except per share amounts)	**2005**	**2006**
Revenue	4,437.00	8,162.00
Owned hotels	2,049.00	2,521.00
Leased hotels	111.00	2,347.00
Management and franchise fees	452.00	684.00
Timeshare and other income	606.00	767.00
Other revenue from managed and franchised properties	1,219.00	1,843.00
Expenses	(3,676.00)	(6,945.00)
Owned hotels	(1,459.00)	(1,780.00)
Leased hotels	(99.00)	(1,985.00)
Depreciation and amortization	(299.00)	(441.00)
Impairment loss and related costs	(7.00)	—
Other operating expenses	(497.00)	(736.00)
Corporate expense	(103.00)	(171.00)
Other expenses from managed and franchised properties	(1,212.00)	(1,832.00)

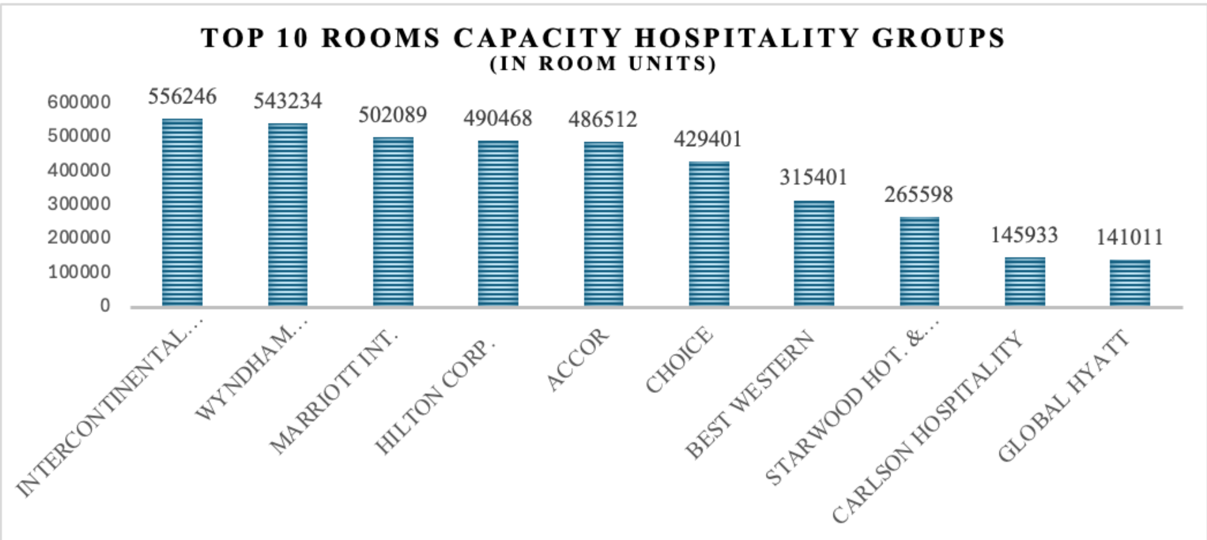
Operating income from unconsolidated affiliates	44.00	57.00
Operating Income	805.00	1,274.00
Interest and dividend income	32.00	27.00
Interest expense	(259.00)	(498.00)
Net interest from unconsolidated affiliates and non-controlled interests	(26.00)	(45.00)
Net gain on foreign currency transactions	—	24.00
Net other (loss) gain	103.00	72.00
Loss from non-operating affiliates	(17.00)	(16.00)
Income Before Taxes and Minority and Non-Controlled Interests	638.00	838.00
Provision for income taxes	(166.00)	(259.00)
Minority and non-controlled interests, net	(12.00)	(7.00)
Net Income	460.00	572.00
Basic Earnings Per Share	1.20	1.49
Diluted Earnings Per Share	1.13	1.39

Consolidated Balance Sheets - year ended 31 December (in millions of dollars)	**2005**	**2006**
ASSETS		
Current Assets		
Cash and equivalents	1,154.00	138.00
Restricted cash	182.00	293.00
Accounts receivable, net	312.00	659.00
Inventories	219.00	430.00
Deferred income taxes	85.00	95.00
Current portion of notes receivable, net	40.00	55.00
Prepaid expenses and other	97.00	239.00
Total current assets	2,089.00	1,909.00
Investments, Property and Other Assets		
Investments and notes receivable, net	707.00	759.00
Property and equipment, net	2,985.00	4,983,00
Management and franchise contracts, net	302.00	1,184.00
Leases, net	107.00	319.00
Brands	970.00	2,846,00
Goodwill	1,216.00	3,710.00
Deferred income taxes	—	85.00
Other assets	367.00	686.00
Total investments, property and other assets	6,654.00	14,572.00
Total Assets	8,743.00	16,481.00
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	772.00	1,901.00
Current maturities of long-term debt	47.00	412.00

Current maturities of non-recourse debt and capital lease obligations of non-controlled entities	—	110.00
Income taxes payable	45.00	44.00
Total current liabilities	864.00	2,467.00
Long-term debt	3,572.00	6,556.00
Non-recourse debt and capital lease obligations of non-controlled entities	100.00	390.00
Deferred income taxes	678.00	2,065.00
Insurance reserves and other	718.00	1,276.00
Total liabilities	5,932.00	12,754.00
Commitments and Contingencies		
Stockholders' Equity		
Common Stock, $2.50 par value, 382 million and 387 million shares outstanding, respectively	1,010.00	1,023.00
Additional paid-in capital	1,158.00	1,248.00
Retained earnings	1,125.00	1,663.00
Accumulated other comprehensive (loss) income	(11.00)	262.00
	3,282.00	4,196.00
Less treasury stock, at cost	(471.00)	(469.00)
Total stockholders' equity	2,811.00	3,727.00
Total Liabilities and Stockholders' Equity	8,743.00	16,481.00

Source: Hilton Hotels Corporation Annual Reports of 2005 and 2006 through SEC.gov

Exhibit 4 – Top 10 Global Ranking of Hospitality Firm Groups rooms capacity



Source: MKG consulting report for Hospitality market in 2007

Exhibit 5 - Hilton Hotels Corporation Projections in a Business as Usual Scenario

Hilton Hotels Corporation - year ended 31 December							
(millions of dollars)	**2006**	**2007H**	**2008**	**2009**	**2010**	**2011**	**2012**

Revenues	8,162.00	8,445.84	8,747.82	9,069.35	9,411.95	9,777.27	10,167.10
Owned hotels	2,521.00	2,546.21	2,571.67	2,597.39	2,623.36	2,649.60	2,676.09
Leased hotels	2,347.00	2,370.47	2,394.17	2,418.12	2,442.30	2,466.72	2,491.39
Management and franchise fees	684.00	731.88	783.11	837.93	896.58	959.35	1,026.50
Timeshare and other income	767.00	843.70	928.07	1,020.88	1,122.96	1,235.26	1,358.79
Other revenue from managed and franchised properties	1,843.00	1,953.58	2,070.79	2,195.04	2,326.75	2,466.35	2,614.33
EBITDA	1,715.00	1,974.24	2,044.82	2,119.98	2,200.07	2,285.46	2,376.58
EBIT	1,274.00	1,332.92	1,380.57	1,431.32	1,485.39	1,543.04	1,604.56
NOPAT	828.10	866.40	897.37	930.36	965.50	1,002.98	1,042.97
Operating Cash Flow	1,269.10	1,507.72	1,561.62	1,619.02	1,680.18	1,745.40	1,814.99
CAPEX	(613.00)	(506.75)	(524.87)	(544.16)	(564.72)	(586.64)	(610.03)
NWCR Investment	413.00	44.57	46.16	47.86	49.66	851.59	53.65
Investment Cashflow	(200.00)	(462.18)	(478.71)	(496,31)	(515,05)	(535,05)	(556,38)
Unlevered FCF	**1,069.10**	**1,045.53**	**1,082.91**	**1,122.72**	**1,165.13**	**1,210.35**	**1,258.61**
Debt Outstanding	**6,556.00**	**7,851.29**	**8,132.01**	**8,430.91**	**8,749.39**	**9,088.99**	**9,451.37**

Source: Hilton Hotels Corporation Annual Reports of 2006, 2005 and 2004 through SEC.gov; PKF-HR Trends® 2005 report, PKF-HR Trends® 2006, PKF-HR Trends® 2007, casewriter estimates

Exhibit 6 - Hilton Hotels Corporation Financial Information (as of 3 July 2007)

Hilton Hotel Corporation - Financial Information (as of 3 July 2007)			
(millions of dollars, unless otherwise stated)			
Cash and cash equivalents		170.00	Fair value
Total borrowings			
	Tradable debt	2,248.00	Fair value
	Other	3,433.00	Book value
Other debt like items		496.00	Book value
Investment in associates		317.00	Book value
Assets held for sale		0.00	Book value
Non-operating deferred tax assets		91.60	Book value
Other financial assets (non-op WC)		48.37	Book value
Minority interests		0.00	Book value
Unfunded pension funds		18.00	Book value
Non-operating deferred tax liabilities		2,151.00	Book value
Non-operating provisions		1,276.00	Book value

Other financial liabilities (non-op WC)	0.00	Book value
Shares outstanding	390,396,303	
Share price	$ 33.93	
Equity book value	4,118.00	
Levered beta	1.29	
3-months US Libor rate	5.36%	

Tradable Debt (as of 3 July 2007)			
Security	**Maturity**	**Coupon rate**	**Face Bool value ($ million)**
Bond (a)	2015	adjustable	82.00
Bond	2009	7.65%	149.00
Senior Note (b)	2008-2031	avg 7.7%	1,673.00
Senior Note	2023	3.375%	575.00

(a) Adjustable rates should be considered as the LIBOR US rate plus the spread of 350 bps given the "BB+" credit rating by S&P Global

(b) This senior note was presented publicly as a bundle of several notes with an average rate of 7,7% of coupon rate and maturities of each note ranging from 2008 to 2031. The payments are expected to be gradual, so the units rounded average maturity should be the one chosen.

Source: Hilton Hotels Corporation Annual Reports of 2006, Hilton Hotels Corporation Halfway 2007 Report and Proxy Statement for the LBO business combination at 2007 through SEC.gov

Exhibit 7 - Capital Markets Data

Market data (as of 03-07-2007)	
1-Month U.S. Treasury Bill	4.35%
3-Months U.S. Treasury Bill	4.42%
6-Months U.S. Treasury Bill	4.34%
1-Year U.S. Treasury Bill	4.07%
5-Year U.S. Treasury Note	3.94%
10-Year U.S. Treasury Note	4.35%
Market Risk Premium	4.37%
Tax rate	35.00%

Long Term Growth Rate	1.50%

Source: Treasury.gov yield curve rates 3 July 2007, Damoronan MRP, Bloomberg, OCDE and Miuhzo Economic Outlooks

Exhibit 8 - Comparable Market Analysis (3 of July of 2007)

Comparables (in millions of dollars)					
	Market Capitalization	Total Tradable Debt	Cash	EBITDA	
Marriott International, Inc.	15,582.84	2,284.00	151.00	1,199.00	
Starwood Hotels Resorts	14,07.28	3,032.00	274.00	1,034.00	
Choice Hotels International, Inc	2,596.54	199.15	47,33	176.33	
Hilton Hotels Corporation	13,246.15	2,248.00	170.00	1,715.00	
	EBIT	**Sales**	**Beta 5Y**	**Tax Rate**	**D/E**
Marriott International, Inc.	1,011.00	12,840.00	1.05	36.00%	0.15
Starwood Hotels Resorts	740.00	6,006.00	1.9	35.00%	0.22
Choice Hotels International, Inc	166.63	630.84	0.9	35.00%	0.08
Hilton Hotels Corporation	1,373.21	8,701.17	1.29	35.00%	0.17

Marriott International, Inc. was a global lodging company headquartered in Bethesda, Maryland, operating a broad portfolio of hotels and resorts under multiple brands. Founded in 1927 as a root beer stand and expanded into full-service hotels, Marriott had become one of the largest hotel operators worldwide. By July 2007, the group reported consolidated revenues of approximately $12,840 million and an EBITDA of around $1,119 million, reflecting its diversified operations across owned, managed, and franchised properties.

Starwood Hotels & Resorts Worldwide, Inc. was a leading global hotel and leisure company headquartered in White Plains, New York, with a portfolio of iconic brands including Sheraton, Westin, St. Regis, W Hotels, and Le Méridien. Known for its strong presence in the upper upscale and luxury segments, Starwood also operated a substantial vacation ownership business. In 2007, the company reported revenues of approximately $6 billion and generated EBITDA of roughly $1.03 billion, reflecting the strength of its global brand platforms, premium customer base, and strategically located property portfolio.

Choice Hotels International, Inc. was a U.S.-based midscale and upscale hotel franchiser, headquartered in Rockville, Maryland, and one of the largest hotel franchise networks in the country. Founded in 1939, the company grew primarily through franchising and management agreements. In 2007, Choice Hotels reported consolidated revenues of approximately $630.836 million and EBITDA of $176.33 million, benefiting an asset light model and stable cash flows, despite operating in a competitive lodging market.

Source: Marriott International Inc, Starwood Hotels Resorts, Choice Hotels International, Inc and Wyndham Worldwide Inc Reports for 20006 Annual and Halfway Report of 2007 through SEC.gov; Bloomberg

Exhibit 9 – Asia & Pacific Tourism Receipts

Source: UNTWO and World Bank

Exhibit 10 - Expected Operating Model in a Leveraged Buyout Scenario

Expected Operating Model

(million dollars, unless otherwise stated)	2007H	2008F	2009F	2010F	2011F	2012F
Revenue	8,445.84	8,808.20	9,205.63	9,631.69	10,088.75	10,579.36
Owned hotels	2,546.21	2,571.67	2,597.39	2,623.36	2,649.60	2,676.09
Leased hotels	2,370.47	2,417.88	2,466.24	2,515.56	2,565.87	2,617.19
Management and franchise fees	731.88	797.75	869.55	947.81	1,033.11	1,126.09
Timeshare and other income	843.70	919.63	1,002.40	1,092.62	1,190.95	1,298.14
Other revenue from managed and franchised properties	1,953.58	2,109.87	2,278.66	2,460.95	2,657.82	2,870.45
EBITDA	1,715.00	2,147.02	2,335.95	2,540.38	2,761.82	3,001.92
EBIT	1,274.00	1,434.14	1,544.88	1,664.54	1,793.97	1,934.11
Tax rate	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
NOPAT	828.10	932.19	1,004.17	1,081.95	1,166.08	1,257.17
Operating Cash Flow	1,269.10	1,645.07	1,795.24	1,957.79	2,133.93	2,324.98
NWCR Investmet	44.57	46.16	47.86	49.66	51.59	53.65
Capex	(613.00)	(616.57)	(644.39)	(674.22)	(706.21)	(740.55)
Investment Cash Flow	(568.43)	(570.41)	(596.54)	(624.55)	(654.62)	(686.91)
Unlevered FCF	**700.67**	**1,074.65**	**1,198.70**	**1,333.24**	**1,479.31**	**1,638.07**
Debt Outstanding	**6,556.00**	**8,538.43**	**9,289.78**	**10,102.78**	**10,983.41**	**11,938.25**

Source: case writer estimates

Exhibit 11 – Expected Debt Terms in a Leveraged Buyout Scenario for a 47,5$ offer (ranked by seniority level)

Debt terms						
	Type	**Maturity**	**5-Yr USD LIBOR swap rate**	**Spread (bps)**	**Effective rate**	**Amount (million dollars)**
Senior Debt						
Term Loan A	Amortizing	6	5.07%	175.00	6.82%	7,600.00
Term Loan B	Ammortizing	7	5.07%	250.00	7.57%	5,200.00
Revolving Credit Facility	Bullet	5	5.07%	210.00	7.17%	2,000.00
Junior Debt						
Mezzanine	Bullet	9	Fixed		13.57%	1,000.00
Cash Interest			5.07%	450.00	9.57%	
PIK element					4.00%	
Shareholder Loan						
Subordinated loan	Bullet	10	Fixed		11.00%	5,656.00
PIK element					11.00%	
Covenants*						
	2007H	**2008F**	**2009F**	**2010F**	**2011F**	**2012F**

Leverage Coverage (a)	7.00x	6.00x	4.80x	3.70x	2.60x	1.80x
Interest Coverage (b)	1.2x	1.50x	1,75x	2.00x	2.50x	2.8x

(a) Requires that the total Net Debt divided by EBITDA does not exceed 7.0 times, with an additional 20% headroom applied to the limit

(b) Requires that EBITDA divided by Cash Interest Paid must be at least 1,2 times, with a 20% headroom applied.

Amortization Schedule (as a % of total facility)		
Year	**Term Loan A**	**Term Loan B**
2007	0.0%	0.0%
2008	4.0%	4.0%
2009	4.5%	4.5%
2010	5.0%	5.0%
2011	5.0%	5.0%
2012	8.0%	8.0%
2013	10.0%	10.0%
2014	13.00%	13.0%
2015	15.00%	15.0%
2016	17.00%	17.0%
2017	18.50%	18.50%

Source: case writer estimates

Exhibit 12 – Expected Debt Terms in a Leveraged Buyout Scenario, for an X bid offer per share (ranked by seniority level)

Debt terms						
	Type	**Maturity**	**5-Yr USD LIBOR swap rate**	**Spread (bps)**	**Effective rate**	**Amount as a Percentages of EV + fees**
Senior Debt						
Term Loan A	Amortizing	6	5.07%	175.00	6.82%	35.26%
Term Loan B	Amortizing	7	5.07%	250.00	7.57%	24.12%
Revolving Credit Facility	Bullet	5	5.07%	210.00	7.17%	9.28%
					0.00%	
Junior Debt						
Mezzanine	Bullet	9	Fixed		13.57%	4.64%
Cash Interest			5.07%	450.00	9.57%	

PIK element				4.00%	
					Percentage of EV + fees
Equity					31.34%
				11.00%	
Shareholder Loan				11.00%	98.26% (c)
Subordinated loan	Bullet	10	Fixed		
PIK element					

Covenants*

	2007H	**2008F**	**2009F**	**2010F**	**2011F**	**2012F**
Leverage Coverage (a)	7.00x	6.00x	4.80x	3.70x	2.60x	1.80x
Interest Coverage (b)	1.2x	1.50x	1,75x	2.00x	2.50x	2.8x

(a) Requires that the total Net Debt divided by EBITDA does not exceed 7.0 times, with an additional 20% headroom applied to the limit

(b) Requires that EBITDA divided by Cash Interest Paid must be at least 1.2 times, with a 20% headroom applied.

(c) Percentage of the Shareholder Loan within the Equity

Amortization Schedule (as a % of total facility)

Year	**Term Loan A**	**Term Loan B**
2007	0.0%	0.0%
2008	4.0%	4.0%
2009	4.5%	4.5%
2010	5.0%	5.0%
2011	5.0%	5.0%
2012	8.0%	8.0%
2013	10.0%	10.0%
2014	13.0%	13.0%
2015	15.0%	15.0%
2016	17.0%	17.0%
2017	18.5%	18.5%

Source: case writer estimates

Exhibit 13 - Sources and Uses of Funds based on a $47,5 share offer

Sources and Uses of Funds (million dollars, unless otherwise stated)				
	Sources		Uses	
Senior Debt	**Source**	**14,800.00**	**EV**	**20,727.00**
Term Loan A	Banks	7,600.00	Equity	18,649.00
Term Loan B	Banks	5,200.00	Net debt	2,078.00
RCF	Banks	2,000.00		
			Fees	**829.00**
Jumior Debt		**1,000.00**	Fees	829.00
Mezzanine	Inst. Investors	1,000.00		
			NWC requirements	**0**
Equity		**5,756.00**	NWC	0
Subordinated loan	Blackstone	5,656.00		
Sweet equity	Management Team (10%)	10.00		
Institutional ordinary shares	Blackstone (90%)	90.00		
Total sources		**21,556.00**	**Total uses**	**21,556.00**

Assumptions
Fees are 4% the Enterprise Value
The subordinated loan amount is the value left to face the total uses of the funds
Equity Value already includes Cash Out from Options amounts

Exhibit 14 - Sources and Uses of Funds based on a X bid offer per share

Sources and Uses of Funds (million dollars, unless otherwise stated)				
Sources		**Percentages of EV + fees**	**Uses**	
Senior Debt	**Source**	**68.66%**	**EV**	**Equity+Net Debt**
Term Loan A	Banks	35.26%	Equity	Shares Outstanding x Bid Price
Term Loan B	Banks	24.12%	Net debt	2,078.00
RCF	Banks	9.28%		
			Fees	**4.00% of EV**
Jumior Debt		**4.64%**	Fees	4.00% of EV
Mezzanine	Inst. Investors	4.64%		
		Percentage of EV + fees - Senior Debt - Junior Debt	**NWC requirements**	**0**
		31.34%	NWC	**0**
Equity				
Subordinated loan	Blackstone	98.26%		

Sweet equity	Management Team (10%)	0.17%		
Institutional ordinary shares	Blackstone (90%)	1.56%		
Total sources		**EV + fees**	**Total uses**	**EV+Fees**

Assumptions
Fees are 4% the Enterprise Value
The subordinated loan amount is the value left to face the total uses of the funds
Equity Value already includes Cash Out from Options amounts

Exhibit 15 - Hilton Hotels Corporation Management Team and Compensation Plan as Options Exercising (as of 3 July 2007)

Name and Principal	Position	Description	Salary (dollars)	Shares Owned
Stephen F. Bollenbach	Co-Chairman of the Board and Chief Executive Officer	Led Hilton since 1996; architect of global expansion and Blackstone deal	1,000,000	110,000.00
Robert M. La Forgia	Executive Vice President and Chief Financial Officer	Oversaw operations, finance, and brand strategy	550,000	120,536.00
Matthew J. Hart	President and Chief Operating Officer	Led Hilton since 1996; architect of global expansion and Blackstone deal	850,000	178,500.00
Ian R. Carter	Executive Vice President and Chief Executive Officer—Hilton International Co.	Oversaw operations, finance, and brand strategy	693,096	12,500.00
Madeleine A. Kleiner	Executive Vice President, General Counsel and Corporate Secretary	Oversaw legal, compliance, and governance matters	525,000	162,593.00

Employee Stock Option Plan Exercise (Treasury Stock Method)

Name	Agregarte shares to All Options	Exercise price
Stephen F. Bollenbach	3,760,000	14.12
Robert M. La Forgia	158,859	5.61
Matthew J. Hart	311,664	11.15
Ian R. Carter	63,099	15.89
Madeleine A. Kleiner	205,517	3.57
2 other Executive Officers as a Group	270,307	4.38

All Outside Directors as a Group	98,000	0.00

Source: Hilton Hotels Corporation Annual Reports of 2006 and Proxy Statement for the LBO business combination at 2007 through SEC.gov

Exhibit 16 - Hilton Hotels Corporation Board of Directors

Name	Position
Stephen F. Bollenbach	Co-Chairman of the Board and Chief Executive Officer
Barron Hilton	Co-Chairman of the Board
Matthew J. Hart	President and Chief Operating Officer
A. Steven Crown	Non-Executive Director; General Partner of Henry Crown and Company
John H. Myers	Non-Executive Director; Chairman of ForstmannLeff and Partner at Angelo, Gordon & Co.
Donna F. Tuttle	Non-Executive Director; Partner of Elmore/Tuttle Sports Group
Barbara Bell Coleman	Independent Director; President of BBC Associates, LLC
Christine Garvey	Independent Director; Former Global Head of Corporate Real Estate, Deutsche Bank AG
Benjamin V. Lambert	Independent Director; Chairman of Eastdil Secured, LLC
John L. Notter	Independent Director; Chairman of Westlake Properties, Inc.
Peter V. Ueberroth	Independent Director; Managing Director of Contrarian Group, Inc.

Source: Hilton Hotels Corporation proxy Statement for Business Combination in July 2007 trough SEC.gov

Exhibit TN 1 – Operating cash-flows and correspondent growth

Operating cash-flows (business as usual scenario)							
(in $ millions)	**2006**	**2007H**	**2008**	**2009**	**2010**	**2011**	**2012**
Operating Cash Flow	1,269.10	1,507.72	1,561.62	1,619.02	1,680.18	1,74.40	1,814.99
Growth (%)		18.80%	3.58%	3.68%	3.78%	3.88%	3.99%

Exhibit TN 2 – Unlevered Beta Procedure

Unlevered Beta				
	Beta	**Tax Rate**	**D/E**	**Unlevered Beta**
Minimum	0.9	35.00%	0.08	0.857

Average	1.29	35.25%	0.15	1.170
Median	1.17	35.00%	0.16	1.061
Maximum	1.9	36.00%	0.22	1.670
Marriott International, Inc.	1.05	36.00%	0.15	0.960
Starwood Hotels Resorts	1.9	35.00%	0.22	1.667
Choice Hotels International, Inc	0.9	35.00%	0.08	0.857
Hilton Hotels Corporation	1.29	35.00%	0.17	1.162

Exhibit TN 3 – Cost of Capital Calculation

Cost of Capital	
Risk-free	3.94%
Market Risk Premium (MRP)	4.37%
Unlevered Beta	1.162
Unlevered Cost of Capital	**9.02%**

Exhibit TN 4 – Cost of Debt Calculation

Tradable Debt			
Security	**Maturity**	**Coupon**	**Face Value ($ million)**
Bond (a)	2015	8,86%	82
Bond	2009	7,65%	149
Senior Note (b)	2008-2031	7,70%	1673
Senior Note	2023	3,375%	575
Total Tradable Bonds			**2479**

Debt payment schedules (million dollars)						
Security	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Bond (a)	7.27	7.27	7.27	7.27	7.27	7.27
Bond	11.40	11.40	160.40			
Senior Note (b)	128.821	128.821	128.821	128.821	128.821	128.821
Senior Note	19.41	19.41	19.41	19.41	19.41	19.41
Total Debt Payments	166.89	166.89	315.89	155.49	155.49	155.49
PV	**166.89**	**166.89**	**315.89**	**155.49**	**155.49**	**155.49**

Debt payment schedules (million dollars)						
Security	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Bond (a)	7.27	7.27	89.27	0.00	0.00	0.00
Bond						
Senior Note (b)	128.82	128.82	128.82	128.82	128.82	128.82

Senior Note	19.41	19.41	19.41	19.41	19.41	19.41
Total Debt Payments	155.49	155,49	237,49	148,23	148,23	148,23
PV	**93.96**	**86.39**	**121.33**	**69.63**	**64.02**	**58.86**

Debt payment schedules (million dollars)					
Security	**2019**	**2020**	**2021**	**2022**	**2023**
Bond (a)					
Bond					
Senior Note (b)	128.82	1,801.82			
Senior Note	19.41	19.41	19.41	19.41	594.41
Total Debt Payments	148.23	1,821.23	19.41	19.41	594.41
PV	**54.12**	**611.45**	**5.99**	**5.51**	**155.13**
Fair Value	2,248.00				
Implied Yield	**8.76%**				

Note: The debt payments cashflows include both the coupons given their maturity time as also the principal at the final.

Exhibit TN 5 – Tax Shields Calculation

Tax Shields (in million dollars)						
	2007H	**2008**	**2009**	**2010**	**2011**	**2012**
Tradable Debt Outstanding		8,538.43	9,289.78	10,102.78	10,983.41	11,938.25
Tax Rate (%)		35.00%	35.00%	35.00%	35.00%	35.00%
Debt Yield		8.76%	8.76%	8.76%	8.76%	8.76%
Tax shields		**261.73**	**284.76**	**309.68**	**336.68**	**365.95**

Exhibit TN 6 – APV Valuation

DCF Valuation (APV, in million dollars)						
	2007H	**2008**	**2009**	**2010**	**2011**	**2012**
Unlevered FCF		1,074.65	1,198.70	1,333.24	1,479.31	1,638.07
Unlevered Cost of Capital	9.02%					
Discounted Unlevered FCF		**985.77**	**1,008.61**	**1,029.02**	**1,047.32**	**1,063.79**
Tax shields		261.73	284.76	309.68	336.68	365.95
Debt Yield	8.76%					
Discounted Tax Shields		**240.65**	**240.75**	**240.73**	**240.64**	**240.50**

DCF	**1,226.42**	**1,249.35**	**1,269.75**	**1,287.96**	**1,304.29**

Long Term Growth Rate	1.50%
Unlevered TV at 2012	22,117.79
Unlevered TV adj to case date	14,363.69
Discounted Unlevered FCF from 2008 to 2012	5,134.50
EV Unlevered	19,498.19
Tax Shield TV at 2012	5,117.55
Tax Shields TV adj to case date	3,363.21
Discounted Tax Shields FCF from 2008 to 2012	1,203.27
EV from Tax Shields	4,566.48
DCF EV	**24,064.67**

EBITDA multiple	15.59
TV at at 2012	46,789.13
TV adj to the case date	30,385.71
Discounted FCF from 2008 to 2012	6,337.77
Multiple EV	**36,723.48**

Exhibit TN 7 – Net Debt and Net Financial Liabilities effects into Equity (3 July, 2007)

(in million dollars)	**EV/EBITDA**	**EV/EBIT**	**EV/Sales**	**DCF (long term growth rate)**	**DCF (multiple)**
EV	26,730.70	22,324.41	23,668.72	24,064.67	36,723.48
Cash and cash equivalents	170.00	170.00	170.00	170.00	170.00
Investment in associates	317.00	317.00	317.00	317.00	317.00
Non-operating deferred tax assets	91.60	91.60	91.60	91.60	91.60
Assets held for sale	0.00	0.00	0.00	0.00	0.00
Other financial assets (non-op WC)	48.37	48.37	48.37	48.37	48.37
Borrowings	5,681.00	5,681.00	5,681.00	5,681.00	5,681.00
Other debt like items	496.00	496.00	496.00	496.00	496.00
Minority interests	0.00	0.00	0.00	0.00	0.00
Unfunded pension funds	18.00	18.00	18.00	18.00	18.00
Non-operating deferred tax liabilities	2,151.00	2,151.00	2,151.00	2,151.00	2,151.00
Non-operating provisions	1,276.00	1,276.00	1,276.00	1,276.00	1,276.00
Other financial liabilities (non-op WC)	0.00	0.00	0.00	0.00	0.00

Pre Exercisable Options Equity	17,735.67	13,329.38	14,673.69	15,069.64	27,728.45
Employee Stock Option Plan Exercise (Treasury Stock Method)	104.76577	104.76577	104.76577	104.76577	10.76577
Equity	**17,630.90**	**13,224.61**	**14,568.93**	**14,964.87**	**27,623.68**

Employee Stock Option Plan Exercise (Treasury Stock Method)

Name	Cash Proceeds	Shares Repurchase	Net New Shares	Employee Stock Option Plan Exercise
Stephen F. Bollenbach	53,100,370.00	1,564,997.642	2,195,002.358	74,476,430
Robert M. La Forgia	891034.87	26,260.97465	132,598.0253	4,499,051
Matthew J. Hart	3474956.52	102,415.4589	209,248.5411	7,099,803
Ian R. Carter	1002787.07	29,554.58503	33,544.41497	1,138,162
Madeleine A. Kleiner	734418.81	21,645.11671	183,871.8833	6,238,773
2 other Executive Officers as a Group	1183105.51	34,869.01002	235,437.99	7,988,411
All Outside Directors as a Group	0	0	98,000.00	3,325,140
Total	**60,386,672.78**	**1,779,742.788**	**3,087,703.212**	**104,765,770**

Exhibit TN 8 – Comparable Firms Analysis Valuation (3 July, 2007)

Comparables Firms Analysis Valuation

(million dollars)	**Sales**	**EBITDA**	**EBIT**
Hilton Hotels Corporation	8,445.84	1,715.00	1,274.00
	EV/Sales	**EV/EBITDA**	**EV/EBIT**
Marriott International, Inc.	1.38	14.78	17.52
Starwood Hotels Resorts	2.80	16.28	22.74
Choice Hotels International, Inc	4.36	15.59	16.49
Min	1.38	14.78	16.49
Median	2.80	15.59	17.52
Average	2.85	15.55	18.92
Max	4.36	16.28	22.74

Hilton Hotels Corporation Valuation

Min	11,653.05	25,340.00	21,013.66
Median	23,668.72	26,730.70	22,324.41
Average	24,039.20	26,662.40	24,105.06
Max	36,795.84	27,916.49	28,977.10

Exhibit TN 9 – Equity Sensitivity Analysis

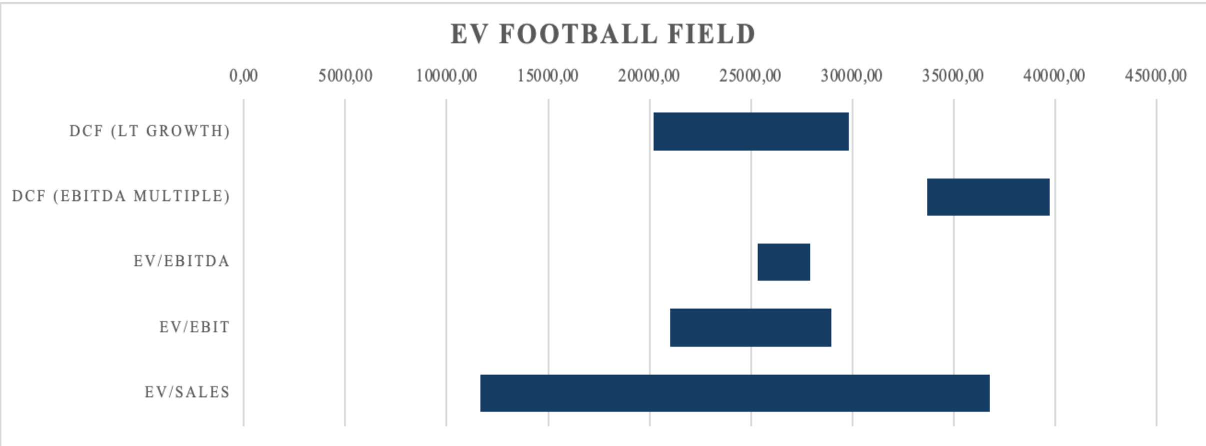
Equity Sensitivity Analysis, DCF growth rate, in million dollars

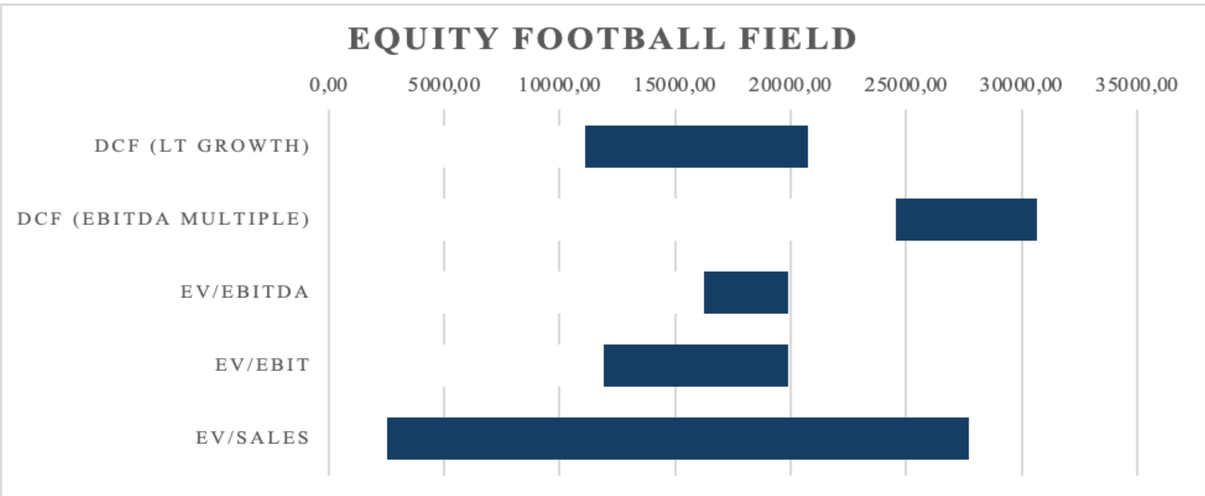
		Growth Rate		
		1.0%	1.5%	2.0%
Return	8.02%	17,205.32	18,840.29	20,749.26
	9.02%	13,770.47	14,964.87	16,330.75
	10.02%	11,092.21	11,993.83	13,008.61

Equity Sensitivity Analysis, DCF EBITDA Multiple, in million dollars

		Multiple		
		14.78	15.59	16.28
Return	8.02%	27,576.87	29,232.05	30,643.36
	9.02%	26,042.83	27,623.68	28,971.62
	10.02%	24,580.85	26,090.96	27,378.58

Exhibit TN 10 – EV and Equity Football Fields





Range		
DCF (multiple)	Multiple	14.78x to 16,28x
Discount rate	8,02% to 10.02%	
DCF (growth rate)	Growth	1,0% to 2%
Discount rate	8,02% to 10.02%	
EV/EBITDA	Multiple	14.78x to 16,28x
EV/EBIT	Multiple	16.49x to 22.74x
EV/Sales	Multiple	1.38x to 4.36x

Exhibit TN 11 – Equity value in the several years before targeting of 25% RR

Equity Value						
	Entry					**Exit**
(million dollars)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
EV/EBITDA	14.03	14.03	14.03	14.03	14.03	14.03
EBITDA	1,715.00	2,147.02	2,335.95	2,540.38	2,761.82	3,001.92
EV	**24,064.67**	**30,126.72**	**32,777.76**	**35,646.33**	**38,753.52**	**42,122.54**
Fees	962.59	1,205.07	1,311.11	1,425.85	1,550.14	1,684.90
Cash	2,402.78	1,718.60	1,121.35	636.14	352.05	(2,301.69)
Debt	**17,638.98**	**17,638.98**	**17,112.04**	**16,541.17**	**15,934.42**	**15,362.36**
Term Loan A	8,484.57	8,484.57	8,145.19	7,778.66	7,389.72	7,020.24
Term Loan B	5,805.23	5,805.23	5,573.02	5,322.24	5,056.13	4,803.32
RCF	2,232.78	2,232.78	2,232.78	2,232.78	2,232.78	2,232.78
Mezzanine	1,116.39	1,116.39	1,161.05	1,207.49	1,255.79	1,306.02
Equity value	**7,865.88**	**13,001.27**	**15,475.96**	**18,315.45**	**21,621.01**	**22,773.60**
Sub loan	7,729.02	12,775.05	15,206.68	17,996.76	21,244.80	22,377.33
Sweet equity	13.37	22.10	26.31	31.14	36.76	38.72
Institutional ordinary shares	122,71	202,82	241,42	285,72	337.29	355.27

Exhibit TN 12 – Table of Debt schedules

Table of Debt Schedules (in million dollars)						
Term LoanA						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Initial	7,154.95	7,154.95	6,868.75	6,559.66	6,231.68	5,920.09
Interest		487.97	468.45	447.37	425.00	403.75

Amortization (% of total)		4.00%	4.50%	5.00%	5.00%	8.00%
Amortization		286.20	309.09	327.98	311.58	473.61
Closing	**7,154.95**	**6,868.75**	**6,559.66**	**6,231.68**	**5,920.09**	**5,446.48**

Term LoanB						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Initial	4,895.49	4,895.49	4,699.67	4,488.19	4,263.78	4,050.59
Interest		370.59	355.77	339.76	322.77	306.63
Amortization (% of total)		4.00%	4.50%	5.00%	5.00%	8.00%
Amortization		195.82	211.49	224.41	213.19	324.05
Closing	**4,895.49**	**4699.67**	**4488.19**	**4263.78**	**4050.59**	**3726.54**

Revolving Credit Facility						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Initial	1,882.88	1,882.88	1,882.88	1,882.88	1,882.88	1,882.88
Interest		135.00	135.00	135.00	135.00	135.00
Amortization						1,882.88
Closing	**1,882.88**	**1,882.88**	**1,882.88**	**1,882.88**	**1,882.88**	**0.00**

Mezzanine						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Initial	941.44	941.44	979.10	1,018.26	1,058.99	1,101.35
Interest		90.10	93.70	97.45	101.35	105.40
PIK		37.66	39.16	40.73	42.36	44.05
Amortization						
Closing	**941.44**	**979.10**	**1,018.26**	**1,058.99**	**1,101.35**	**1145.41**

Shareholder loan						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Initial	6,543.98	7,263.81	8,062.83	8,949.74	9,934.22	11,026.98
PIK	719.84	799.02	886.91	984.47	1,092.76	1,212.97
Amortization						
Closing	**7,263.81**	**8,062.83**	**8,949.74**	**9,934.22**	**11,026.98**	**12,239.95**

Exhibit TN 13 – Table of Cash Schedules

Table of Cash Schedules (million of dollars)						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
EBIT	1,274.00	1,434.14	1,544.88	1,664.54	1,793.97	1,934.11
Taxes	445.90	501.95	540.71	582.59	627.89	676.94
NOPAT	828.10	932.19	1,004.17	1,081.95	1,166.08	1,257.17

D&A	441.00	712.88	791.07	875.84	967.85	1,067.81
OCF	1,269.10	1,645.07	1,795.24	1,957.79	2,133.93	2,324.98
NWCR Investment		46.16	47.86	49.66	51.59	53.65
Capex		(616.57)	(644.39)	(674.22)	(706.21)	(740.55)
Cash flow before financing		**1,074.65**	**1,198.70**	**1,333.24**	**1,479.31**	**1,638.07**
Debt drawdown	1,882.88	0.00	0.00	0.00	0.00	0.00
Interest revenue*	0.00	83.55	66.97	54.44	46.94	47.65
Cash available for debt interest		**3,211.09**	**2,911.09**	**2,725.27**	**2,679.55**	**2,856.38**
Interest expense	0.00	(1,083.65)	(1,052.92)	(1,019.57)	(984.12)	(950.78)
Cash available for debt amort.		**2,127.43**	**1,858.17**	**1,705.70**	**1,695.43**	**1,905.60**
Debt amortization	0.00	(482.02)	(520.58)	(552.39)	(524.77)	(2,680.54)
Closing balance	**2,052.88**	**1,645.42**	**1,337.59**	**1,153.30**	**1,170.66**	**(774.94)**

Exhibit TN 14 – IRR with the Equity Schedules before targeting of 25% IRR

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Equity Cashflow	(7,851.73)	0,00	0,00	0,00	0,00	22,732.60
IRR	23.69%					

Exhibit TN 15 – Equity value in the several years after targeting of 25% IRR

Equity Value						
	Entry					**Exit**
(million dollars)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
EV/EBITDA	11.83	11.83	11.83	11.83	11.83	11.83
EBITDA	1,715.00	2,147.02	2,335.95	2,540.38	2,761.82	3,001.92
EV	**20,293.48**	**25,405.54**	**27,641.14**	**30,060.17**	**32,680.43**	**35,521.49**
Fees	811.74	1,016.22	1,105.65	1,202.41	1,307.22	1,420.86
Cash	2,052.88	1,645.42	1,337.59	1,153.30	1,170.66	(774.94)
Debt	**14,874.76**	**14,874.76**	**14,430.40**	**13,948.99**	**13,437.33**	**12,954.91**
Term Loan A	7,154.95	7,154.95	6,868.75	6,559.66	6,231.68	5,920.09
Term Loan B	4,895.49	4,895.49	4,699.67	4,488.19	4,263.78	4,050.59
RCF	1,882.88	1,882.88	1,882.88	1,882.88	1,882.88	1,882.88
Mezzanine	941.44	941.44	979.10	1,018.26	1,058.99	1,101.35
Equity value	**6,659.86**	**11,159.97**	**13,442.68**	**16,062.08**	**19,106.55**	**20,370.78**
Sub loan	6,543.98	10,965.79	13,208.78	15,782.60	18,774.09	20,016.33
Sweet equity	11.32	18.97	22.85	27.31	32.48	34.63
Institutional ordinary shares	103.89	174.10	209.71	250.57	298.06	317.78

Exhibit TN 16 – IRR with the Equity Schedules after targeting of 25% IRR

(in million dollars)						
Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Equity Cashflow	(6,647.87)	0	0	0	0	20,334.11
IRR	25%					

Exhibit TN 17 – Bid Price per Share Blackstone should or is able to propose

(in million dollars)		
EV for IRR of 25% at 2007		20,293.48
Net Debt Pre Deal		2,078.00
Equity		18,215.48
Shares Outstanding (in units)		390,396,303
Bid Price per share (Fair Value)	$	46.66

Exhibit TN 18 - EV and Equity Bridge

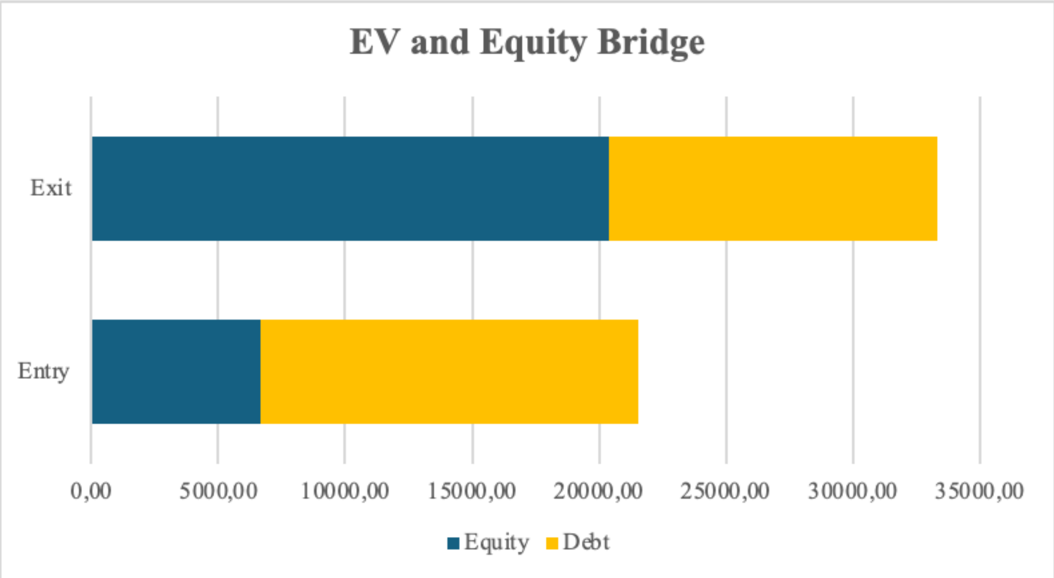


Exhibit TN 19 - EV Deal Breakdown at the exit of the LBO

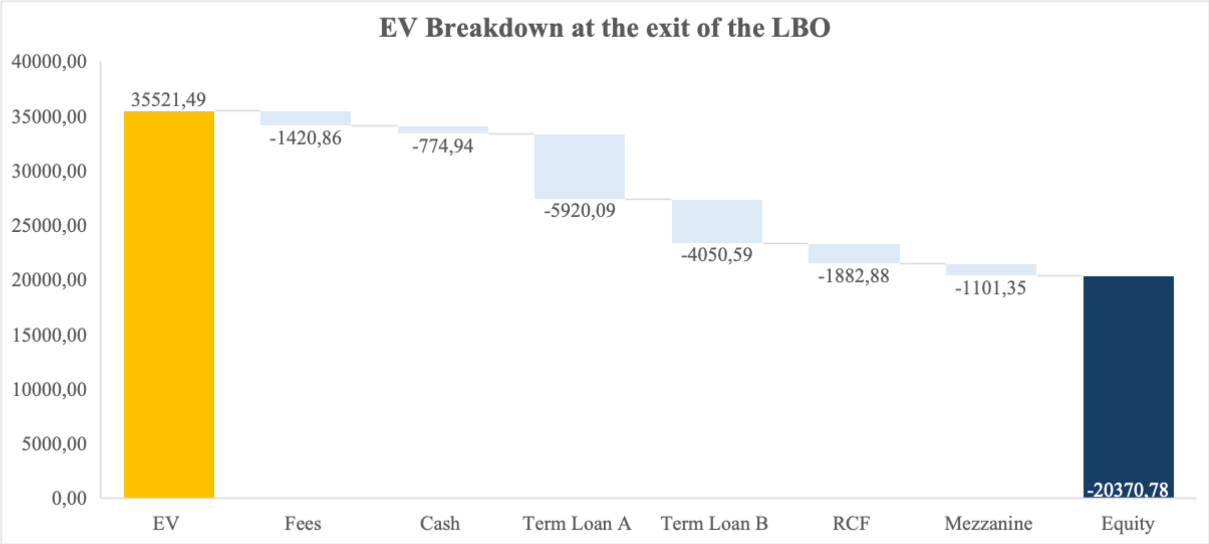


Exhibit TN 20 – Credit Ratios Computation

Credit ratios						
(million dollars)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
EBITDA	1,715.00	2,147.02	2,335.95	2,540.38	2,761.82	3,001.92
Interest		1,083.65	1,052.92	1,019.57	984.12	950.78
Debt amortization		482.02	520.58	552.39	524.77	2,680.54
Cash available for debt services		3,211.09	2,911.09	2,725.27	2,679.55	2,856.38
Debt	14,874.76	14,874.76	14,430.40	13,948.99	13,437.33	12,954.91
Cash	2,052.88	1,645.42	1,337.59	1,153.30	1,170.66	(774.94)
Net debt	12,821.88	13,229.35	13,092.81	12,795.69	12,266.67	13,729.85
Leverage Cover	**7.48**	**6.16**	**5.60**	**5.04**	**4.44**	**4.57**
Interest Coverage		**1.98**	**2.22**	**2.49**	**2.81**	**3.16**

Exhibit TN 21– Management Equity Returns

Management (millions dollars)						
	Entry					**Exit**
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Equity in	(11.32)	(11.32)	(11.32)	(11.32)	(11.32)	(11.32)
Equity out	103.89	174.10	209.71	250.57	298.06	317.78
IRR		1437.71%	1752.24%	2113.16%	2532.65%	2706.84%

Exhibit TN 22– Management rollover

Management rollover	
Shares owned (units)	110,000.00
Share Price	46.66
Value (million dollars)	5.13

Tax rate % (a)	23.8%
Net Value (million dollars)	3.91
Rollover percentage (b)	60.00%
Final Value	2.35

(a) Assumption of personal tax rate of 23,8% (20% plus NIIT Surcharge)

(b) Assuming the management team reinvests 60% of the net proceeds

Case writer estimated assumptions

(1) *Net annual increase of 15,000 new rooms across the hotel chain group in a business-as-usual scenario*

- ***Rationale:*** *The net increase in 2004 and 2005 was of 10000 and 20000 respectively, excluding from assumptions 2006 for being a year of post high value acquisition*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(2) *Total revenue to pursue an annual growth of between 3,5% and 4,0% in a business-as-usual scenario*

- ***Rationale:*** *This growth near is consistent with the historical pattern of being for several years always above 100 basis points (1%) the RevPAR growth. The guidance for the sector in RevPAR for the next several years is between 4,5% and 5,5%, but to be conservative knowing the hospitality sector is at all time highs, its assumed to be in line with RevPAR. Moreover, the aggregation of the several segments that will be described in sequence estimated by the company reports match also the overall revenue growth.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 through SEC.gov, PKF-HR Trends 2005 Report, PKF-HR Trends 2006 Report, PKF-HR Trends 2007 Report.*

(3) *Owned Hotels segment to pursue an annual growth of between 1% in a business-as-usual scenario*

- ***Rationale:*** *This growth near inflation follows its recent historical record excluding acquisition times, due to a new less heavy capital strategy by Hilton Hotels Corporation.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(4) *Leased Hotels segment to pursue an annual growth of 1% in a business-as-usual scenario*

- ***Rationale:*** *This growth near inflation follows its recent historical record excluding acquisition times, due to a new less heavy capital strategy by Hilton Hotels Corporation.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(5) *Management and franchisee fees segment to pursue an annual growth of 7% in a business-as-usual scenario*

- ***Rationale:*** *This growth is in line its recent historical record excluding acquisition times and is expected to be maintained strongly as the growth in rooms has been between 20,000 to 30,000 annually, showing that the net global increase of rooms in 15,000 shows lower amount of owned hotel rooms. A lighter asset base has been targeted by Hilton Hotels Corporation within the given possible time and opportunities.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(6) *Timeshare and other income segment to pursue an annual growth of 10% in a business-as-usual scenario*

- ***Rationale:*** *This growth is in line its recent historical record excluding acquisition times and is expected to be maintained strongly as the growth in rooms has been of also been consistent with also momentum for this kind of model in big condominiums and Villas.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(7) *Other revenue from managed and franchised properties segment to pursue an annual growth between 6% in a business-as-usual scenario*

- ***Rationale:*** *This growth is in line with its recent historical record excluding acquisition times and is expected to be maintained strongly as the hotels turned into not only night stays but complete cities with very diverse and integrated services.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(8) *Capex and NWC investments to represent the same percentage of sales*

- ***Rationale:*** Increase in sales to be proportional to the investment made

(9) *The marginal tax rate if of 35% marginal tax rate*

- ***Rationale:*** *Reflecting a conservative yet realistic estimate relative to the 35% U.S. federal corporate rate in effect during 2007, even with ocasional tax benefits.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(10) Debt outstanding to match the levels historical leverage ratio of EBITDA of 3.98 of Hilton Hotels Corporation

- ***Rationale:*** *This level aligns with the company's reported weighted average interest rate of approximately 6%, supported by Moody's credit rating upgrade during the late years. Variations below this level in certain years reflect management's use of excess cash flow to repay debt, as highlighted in Hilton's 2006 Annual Report, indicating a disciplined capital structure approach and stable credit profile.*
- ***Source:*** *Hilton Hotels Corporation Annual Report 2006, 2005 and 2004 trough SEC.gov*

(11) Further expansion of generally all segments to the emerging countries at a high pace level, in a leveraged buyout scenario

- ***Source:*** *Blackstone Investment Thesis*

(12) Acceleration of the light asset base model with more franchise and timeshare hotels at a very big scale, in a leveraged buyout scenario

- ***Source:*** *Blackstone Investment Thesis*

(13) Expansion of other income segment as a hotel would be seen not just as a night stay but also as a complete city with all kinds of amenities, spas, supermarkets, restaurants, coffee shops..., in a leveraged buyout scenario

- ***Source:*** *Blackstone Investment Thesis*

(14) Further EBITDA and EBIT margins expansion due to scale and global operations optimization as also the light asset model approach acceleration, in a leveraged buyout scenario

- ***Source:*** *Blackstone Investment Thesis*

(15) Increase in Capex consequently derived from an increase in sales both from the expansion to emerging countries and rapid scale franchise and timeshare model, in a leveraged buyout mantained around the 6,5 or 7% of Revenues.

- ***Source:*** *Blackstone Investment Thesis*

(16) LBO fees are 4% of the EV

- ***Source:*** *Blackstone Investment Thesis*

(17) Debt maturities according to the industry

- **Source:** *Rule of thumb*

(17) LIBOR US 3 months rate of 5.36%

- **Source:** *Bloomberg*

(18) LIBOR US 5 years rate of 5.07%

- **Source:** *Bloomberg*

(19) Level Spreads over the LIBOR US rate for the LBO in its debt financing terms

- **Source:** *Blackstone Investment Thesis Debt Financing*

(20) Debt amounts

- **Source:** *Blackstone Investment Thesis Debt Financing*

(21) Debt covenants terms

- **Source:** *Rule of thumb; defined with a 20% headroom over the expected EBITDA*

(22) Market Risk Premium in a form of implied one by 2007

- **Source:** Damodaran

(23) *EBITDAR would be the most appropriate operating performance metric for assessing firms in the hospitality industry, as it neutralizes differences in business models particularly between asset ownership and asset light structures, by excluding rental expenses. However, EBITDAR data was not consistently available for Hilton Hotels Corporation and its peer group. Therefore, EBITDA is used as the closest available proxy in a conservative approach.*

(24) Market Risk Premium has been retrieved from reliable data, and its value should be surrounded by the environment of pre crisis in 2007. The low Market Risk Premium as also the closeness in percentage between the debt yields (cost of debt proxy) and the unlevered cost of capital, surges since the case is positioned in a particular macroeconomic moment (2007 pre crisis). The market stands at a peak of a credit cycle with high risk free rates and compressed spreads, so that even safe corporate debt had high levels. Investors perceived lower macro risk than what they should have, and the proof of that was that deals like Hilton LBO at an aggressive premium bid offer with high leverage happened. In contrary direction, Hilton had a relative defensive and conservative position in the hospitality sector explaining the not so elevated unlevered cost of capital, and the closeness with the debt yields (proxy for the cost of debt). This situation is common and normal under similar periods. Even on a later stage under a post crisis the opposite tends to happen, with substantial lower debt yields. The most important should be that the debt yields stands as the lowest percentage, under the unlevered cost of capital, witch consequently is an inferior value when compared with the LBO cost of equity.