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Hilton Worldwide Holdings Inc.

Form 10-Q

August 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-36243

Hilton Worldwide Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-4384691

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

7930 Jones Branch Drive, Suite 1100, McLean, VA 22102

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (703) 883-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of July 28, 2014 was 984,617,365.

HILTON WORLDWIDE HOLDINGS INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HILTON WORLDWIDE HOLDINGS INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions, except share data)

| | June 30, 2014 (unaudited) | December 31, 2013 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$545 | \$594 |
| Restricted cash and cash equivalents | 284 | 266 |
| Accounts receivable, net of allowance for doubtful accounts of \$30 and \$32 | 858 | 731 |
| Inventories | 359 | 396 |
| Deferred income tax assets | 23 | 23 |
| Current portion of financing receivables, net | 52 | 94 |
| Current portion of securitized financing receivables, net | 65 | 27 |
| Prepaid expenses | 166 | 148 |
| Other | 65 | 104 |
| Total current assets (variable interest entities - \$216 and \$97) | 2,417 | 2,383 |
| Property, Investments and Other Assets: | | |
| Property and equipment, net | 9,036 | 9,058 |
| Financing receivables, net | 359 | 635 |
| Securitized financing receivables, net | 462 | 194 |
| Investments in affiliates | 257 | 260 |
| Goodwill | 6,227 | 6,220 |
| Brands | 5,016 | 5,013 |
| Management and franchise contracts, net | 1,390 | 1,452 |
| Other intangible assets, net | 727 | 751 |
| Deferred income tax assets | 196 | 193 |
| Other | 410 | 403 |
| Total property, investments and other assets (variable interest entities - \$694 and \$408) | 24,080 | 24,179 |
| TOTAL ASSETS | \$26,497 | \$26,562 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, accrued expenses and other | \$1,999 | \$2,079 |
| Current maturities of long-term debt | 3 | 4 |
| Current maturities of non-recourse debt | 107 | 48 |
| Income taxes payable | 11 | 11 |
| Total current liabilities (variable interest entities - \$219 and \$86) | 2,120 | 2,142 |
| Long-term debt | 11,314 | 11,751 |
| Non-recourse debt | 890 | 920 |

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| | | |
|--|--------|--------|
| Deferred revenues | 593 | 674 |
| Deferred income tax liabilities | 5,058 | 5,053 |
| Liability for guest loyalty program | 630 | 597 |
| Other | 1,145 | 1,149 |
| Total liabilities (variable interest entities - \$987 and \$583) | 21,750 | 22,286 |

Commitments and contingencies - see Note 16

Equity:

| | | |
|---|-----------------|-----------------|
| Preferred stock, \$0.01 par value; 3,000,000,000 authorized shares, none issued or outstanding as of June 30, 2014 and December 31, 2013 | — | — |
| Common stock, \$0.01 par value; 30,000,000,000 authorized shares, 984,617,365 issued and outstanding as of June 30, 2014 and 984,615,364 issued and outstanding as of December 31, 2013 | | 10 |
| Additional paid-in capital | 10,009 | 9,948 |
| Accumulated deficit | (4,999) |) (5,331) |
| Accumulated other comprehensive loss | (186) |) (264) |
| Total Hilton stockholders' equity | 4,834 | 4,363 |
| Noncontrolling interests | (87) |) (87) |
| Total equity | 4,747 | 4,276 |
| TOTAL LIABILITIES AND EQUITY | \$26,497 | \$26,562 |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In millions, except per share data)
 (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|---------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | | | | |
| Owned and leased hotels | \$1,117 | \$1,070 | \$2,062 | \$1,984 |
| Management and franchise fees and other | 354 | 299 | 666 | 561 |
| Timeshare | 276 | 261 | 555 | 507 |
| | 1,747 | 1,630 | 3,283 | 3,052 |
| Other revenues from managed and franchised properties | 920 | 750 | 1,747 | 1,591 |
| Total revenues | 2,667 | 2,380 | 5,030 | 4,643 |
| Expenses | | | | |
| Owned and leased hotels | 833 | 804 | 1,604 | 1,547 |
| Timeshare | 188 | 181 | 365 | 351 |
| Depreciation and amortization | 158 | 149 | 311 | 309 |
| General, administrative and other | 133 | 92 | 230 | 189 |
| | 1,312 | 1,226 | 2,510 | 2,396 |
| Other expenses from managed and franchised properties | 920 | 750 | 1,747 | 1,591 |
| Total expenses | 2,232 | 1,976 | 4,257 | 3,987 |
| Operating income | 435 | 404 | 773 | 656 |
| Interest income | 5 | 1 | 6 | 3 |
| Interest expense | (158) | (131) | (311) | (274) |
| Equity in earnings from unconsolidated affiliates | 8 | 7 | 12 | 8 |
| Gain (loss) on foreign currency transactions | 32 | (39) | 46 | (82) |
| Other gain (loss), net | 11 | (1) | 14 | 6 |
| Income before income taxes | 333 | 241 | 540 | 317 |
| Income tax expense | (121) | (84) | (204) | (122) |
| Net income | 212 | 157 | 336 | 195 |
| Net income attributable to noncontrolling interests | (3) | (2) | (4) | (6) |
| Net income attributable to Hilton stockholders | \$209 | \$155 | \$332 | \$189 |
| Earnings per share | | | | |
| Basic and diluted | \$0.21 | \$0.17 | \$0.34 | \$0.20 |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (In millions)
 (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------|------------------|--------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$212 | \$157 | \$336 | \$195 |
| Other comprehensive income (loss), net of tax benefit (expense): | | | | |
| Currency translation adjustment, net of tax of \$66, \$(31), \$102 and \$(155) | 53 | (18) |) 81 | (181) |
| Pension liability adjustment, net of tax of \$(1), \$(5), \$(1) and \$(7) | 3 | 8 | 4 | 12 |
| Cash flow hedge adjustment, net of tax of \$3, \$—, \$5 and \$— | (6) |) — | (9) |) — |
| Total other comprehensive income (loss) | 50 | (10) |) 76 | (169) |
| Comprehensive income | 262 | 147 | 412 | 26 |
| Comprehensive income attributable to noncontrolling interests | (3) |) (8) |) (2) |) (22) |
| Comprehensive income attributable to Hilton stockholders | \$259 | \$139 | \$410 | \$4 |

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions)
 (Unaudited)

| | Six Months Ended | |
|---|------------------|--------|
| | June 30, | |
| | 2014 | 2013 |
| Operating Activities | | |
| Net income | \$336 | \$195 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 311 | 309 |
| Equity in earnings from unconsolidated affiliates | (12 |) (8 |
| Loss (gain) on foreign currency transactions | (46 |) 82 |
| Other gain, net | (14 |) (6 |
| Share-based compensation | 41 | 3 |
| Distributions from unconsolidated affiliates | 11 | 10 |
| Deferred income taxes | (42 |) 25 |
| Change in restricted cash and cash equivalents | (1 |) (46 |
| Working capital changes and other | (72 |) 74 |
| Net cash provided by operating activities | 512 | 638 |
| Investing Activities | | |
| Capital expenditures for property and equipment | (110 |) (121 |
| Acquisitions | — | (30 |
| Payments received on other financing receivables | 2 | 1 |
| Issuance of other financing receivables | (1 |) (7 |
| Investments in affiliates | (5 |) (3 |
| Distributions from unconsolidated affiliates | 11 | 13 |
| Proceeds from asset dispositions | 35 | — |
| Contract acquisition costs | (21 |) (10 |
| Software capitalization costs | (32 |) (26 |
| Net cash used in investing activities | (121 |) (183 |
| Financing Activities | | |
| Borrowings | 350 | 451 |
| Repayment of debt | (783 |) (952 |
| Debt issuance costs | (2 |) — |
| Change in restricted cash and cash equivalents | (17 |) (30 |
| Capital contribution | 13 | — |
| Distributions to noncontrolling interests | (2 |) (3 |
| Net cash used in financing activities | (441 |) (534 |
| Effect of exchange rate changes on cash and cash equivalents | 1 | (15 |
| Net decrease in cash and cash equivalents | (49 |) (94 |
| Cash and cash equivalents, beginning of period | 594 | 755 |
| Cash and cash equivalents, end of period | \$545 | \$661 |

Supplemental Disclosures

Cash paid during the year:

| | | |
|------------------------------|-------|-------|
| Interest | \$257 | \$288 |
| Income taxes, net of refunds | \$141 | \$40 |

Non-cash investing activity:

| | | | |
|-----------------------------|------|--------|---|
| Capital lease restructuring | \$11 | \$(44) |) |
|-----------------------------|------|--------|---|

Non-cash financing activity:

| | | | |
|-----------------------------|------|--------|---|
| Capital lease restructuring | \$11 | \$(48) |) |
|-----------------------------|------|--------|---|

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (In millions)
 (Unaudited)

| | Equity Attributable to Hilton Stockholders | | | | | | |
|--|--|------------------------|----------------------------------|------------------------|---|-----------------------------|---------|
| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
| Balance as of December 31, 2013 | 985 | \$10 | \$9,948 | \$(5,331) | \$(264) | \$(87) | \$4,276 |
| Net income | — | — | — | 332 | — | 4 | 336 |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Currency translation adjustment | — | — | — | — | 83 | (2) | 81 |
| Pension liability adjustment | — | — | — | — | 4 | — | 4 |
| Cash flow hedge adjustment | — | — | — | — | (9) | — | (9) |
| Other comprehensive income (loss) | — | — | — | — | 78 | (2) | 76 |
| Share-based compensation | — | — | 48 | — | — | — | 48 |
| Capital contribution | — | — | 13 | — | — | — | 13 |
| Distributions | — | — | — | — | — | (2) | (2) |
| Balance as of June 30, 2014 | 985 | \$10 | \$10,009 | \$(4,999) | \$(186) | \$(87) | \$4,747 |

| | Equity Attributable to Hilton Stockholders | | | | | | |
|---------------------------------|--|------------------------|----------------------------------|------------------------|---|-----------------------------|-------|
| | Common Stock Shares ⁽¹⁾ | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total |
| Balance as of December 31, 2012 | 921 | \$1 | \$ | | | | |