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Hilton Worldwide Holdings Inc.

Form 10-Q

April 27, 2016

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 March 31, 2016

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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 April 22, 2016 was 989,768,078.

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)

	March 31, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 692	\$ 609
Restricted cash and cash equivalents	281	247
Accounts receivable, net of allowance for doubtful accounts of \$32 and \$30	913	876
Inventories	469	442
Current portion of financing receivables, net	124	129
Prepaid expenses	193	147
Income taxes receivable	28	97
Other	38	38
Total current assets (variable interest entities - \$160 and \$141)	2,738	2,585
Property, Intangibles and Other Assets:		
Property and equipment, net	9,098	9,119
Financing receivables, net	897	887
Investments in affiliates	127	138
Goodwill	5,890	5,887
Brands	4,920	4,919
Management and franchise contracts, net	1,114	1,149
Other intangible assets, net	563	586
Deferred income tax assets	77	78
Other	297	274
Total property, intangibles and other assets (variable interest entities - \$603 and \$481)	22,983	23,037
TOTAL ASSETS	\$ 25,721	\$ 25,622
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable, accrued expenses and other	\$ 2,251	\$ 2,206
Current maturities of long-term debt	97	94
Current maturities of timeshare debt	96	110
Income taxes payable	101	33
Total current liabilities (variable interest entities - \$250 and \$157)	2,545	2,443
Long-term debt	9,878	9,857
Timeshare debt	377	392
Deferred revenues	228	283
Deferred income tax liabilities	4,593	4,630
Liability for guest loyalty program	803	784
Other	1,092	1,282
Total liabilities (variable interest entities - \$804 and \$627)	19,516	19,671
Commitments and contingencies - see Note 18		
Equity:	—	—

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Preferred stock, \$0.01 par value; 3,000,000,000 authorized shares, none issued or outstanding as of March 31, 2016 and December 31, 2015		
Common stock, \$0.01 par value; 30,000,000,000 authorized shares, 989,791,431 issued and 989,762,664 outstanding as of March 31, 2016 and 987,487,127 issued and 987,458,360 outstanding as of December 31, 2015	10	10
Additional paid-in capital	10,153	10,151
Accumulated deficit	(3,152)	(3,392)
Accumulated other comprehensive loss	(774)	(784)
Total Hilton stockholders' equity	6,237	5,985
Noncontrolling interests	(32)	(34)
Total equity	6,205	5,951
TOTAL LIABILITIES AND EQUITY	\$ 25,721	\$ 25,622

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 March 31,	
	2016	2015
Revenues		
Owned and leased hotels	\$967	\$957
Management and franchise fees and other	386	371
Timeshare	326	321
	1,679	1,649
Other revenues from managed and franchised properties	1,071	950
Total revenues	2,750	2,599
Expenses		
Owned and leased hotels	756	768
Timeshare	217	234
Depreciation and amortization	169	175
Impairment loss	15	—
General, administrative and other	113	127
	1,270	1,304
Other expenses from managed and franchised properties	1,071	950
Total expenses	2,341	2,254
Gain on sales of assets, net	—	145
Operating income	409	490
Interest income	3	6
Interest expense	(139)	(144)
Equity in earnings from unconsolidated affiliates	3	4
Loss on foreign currency transactions	(12)	(18)
Other loss, net	—	(25)
Income before income taxes	264	313
Income tax benefit (expense)	46	(163)
Net income	310	150
Net income attributable to noncontrolling interests	(1)	—
Net income attributable to Hilton stockholders	\$309	\$150
Earnings per share		
Basic	\$0.31	\$0.15
Diluted	\$0.31	\$0.15

Cash dividends declared per share \$0.07 \$—

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Net income	\$310	\$150
Other comprehensive income (loss), net of tax benefit (expense):		
Currency translation adjustment, net of tax of \$(3) and \$(91)	13	(234)
Pension liability adjustment, net of tax of \$(1) and \$(1)	1	1
Cash flow hedge adjustment, net of tax of \$4 and \$4	(6)	(7)
Total other comprehensive income (loss)	8	(240)
Comprehensive income (loss)	318	(90)
Comprehensive loss attributable to noncontrolling interests	1	—
Comprehensive income (loss) attributable to Hilton stockholders	\$319	\$(90)

See notes to condensed consolidated financial statements.

HILTON WORLDWIDE HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net income	\$310	\$150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	169	175
Impairment loss	15	—
Gain on sales of assets, net	—	(145)
Equity in earnings from unconsolidated affiliates	(3)	(4)
Loss on foreign currency transactions	12	18
Other loss, net	—	25
Share-based compensation	11	19
Distributions from unconsolidated affiliates	5	12
Deferred income taxes	(32)	40
Change in restricted cash and cash equivalents	(14)	(2)
Working capital changes and other	(161)	(2)
Net cash provided by operating activities	312	286
Investing Activities		
Capital expenditures for property and equipment	(84)	(88)
Acquisitions, net of cash acquired	—	(1,298)
Payments received on other financing receivables	1	1
Issuance of other financing receivables	(9)	(2)
Distributions from unconsolidated affiliates	2	2
Proceeds from asset dispositions	—	1,869
Change in restricted cash and cash equivalents	14	—
Contract acquisition costs	(9)	(11)
Capitalized software costs	(11)	(8)
Net cash provided by (used in) investing activities	(96)	465
Financing Activities		
Repayment of debt	(32)	(710)
Change in restricted cash and cash equivalents	(34)	(57)
Dividends paid	(69)	—
Distributions to noncontrolling interests	(2)	(2)
Excess tax benefits from share-based compensation	—	8
Net cash used in financing activities	(137)	(761)
Effect of exchange rate changes on cash and cash equivalents	4	(9)
Net increase (decrease) in cash and cash equivalents	83	(19)
Cash and cash equivalents, beginning of period	609	566

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Cash and cash equivalents, end of period	\$692	\$547
Supplemental Disclosures		
Cash paid during the year:		
Interest	\$86	\$88
Income taxes, net of refunds	39	20
Non-cash investing activities:		
Conversion of property and equipment to timeshare inventory	(22)	—
Long-term debt assumed	—	(450)
Non-cash financing activities:		
Long-term debt assumed	—	450
See notes to condensed consolidated financial statements.		

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

	Equity Attributable to Hilton Stockholders						Noncontrolling Interests	Total
	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss			
Balance as of December 31, 2015	987	\$ 10	\$ 10,151	\$ (3,392)	\$ (784)	\$ (34)	\$ 5,951	
Share-based compensation	3	—	2	—	—	—	2	
Net income	—	—	—	309	—	1	310	
Other comprehensive income (loss), net of tax:								
Currency translation adjustment	—	—	—	—	15	(2)	13	
Pension liability adjustment	—	—	—	—	1	—	1	
Cash flow hedge adjustment	—	—	—	—	(6)	—	(6)	
Other comprehensive income (loss)	—	—	—	—	10	(2)	8	
Dividends	—	—	—	(69)	—	—	(69)	
Cumulative effect of the adoption of ASU 2015-02	—	—	—	—	—	5	5	
Distributions	—	—	—	—	—	(2)	(2)	
Balance as of March 31, 2016	990	\$ 10	\$ 10,153	\$ (3,152)	\$ (774)	\$ (32)	\$ 6,205	

	Equity Attributable to Hilton Stockholders						Noncontrolling Interests	Total
	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss			
Balance as of December 31, 2014	985	\$ 10	\$ 10,028	\$ (4,658)	\$ (628)	\$ (38)	\$ 4,714	
Share-based compensation	2	—	—	—	—	—	—	
Net income	—	—	—	150	—	—	150	
Other comprehensive income (loss), net of tax:								
Currency translation adjustment	—	—	—	—	(234)	—	(234)	
Pension liability adjustment	—	—	—	—	1	—	1	
Cash flow hedge adjustment	—	—	—	—	(7)	—	(7)	
Other comprehensive loss	—	—	—	—	(240)	—	(240)	
Distributions	—	—	—	—	—	(2)	(2)	
Balance as of March 31, 2015	987	\$ 10	\$ 10,028	\$ (4,508)	\$ (868)	\$ (40)	\$ 4,622	