

COMPANY PROFILE

# Hilton Worldwide Holdings Inc

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## COMPANY OVERVIEW

Hilton Worldwide Holdings Inc. (HWHI) is a global hospitality company. It operates a chain of luxury and full-service hotels and resorts, extended-stay suites and focused-service hotels. The company offers lodging, food, boarding, restaurants, dining, and loyalty programs. HWHI operates hotels under various brands such as Waldorf Astoria Hotels & Resorts, Canopy by Hilton, Curio - A Collection by Hilton, Conrad Hotels & Resorts, Hilton Hotels & Resorts, DoubleTree by Hilton, Embassy Suites, Tru by Hilton, Hilton Garden Inn, Hampton, Homewood Suites by Hilton, Home2 Suites by Hilton and Hilton Grand Vacations. Hilton manages customer loyalty program under Hilton Honors brand. HWHI is headquartered in McLean, Virginia, the US.

The company reported revenues of (US Dollars) US\$9,140 million for the fiscal year ended December 2017 (FY2017), an increase of 23.8% over FY2016. In FY2017, the company's operating margin was 14.4%, compared to an operating margin of 12.9% in FY2016. In FY2017, the company recorded a net margin of 13.8%, compared to a net margin of 4.7% in FY2016.

The company reported revenues of US\$2,291.0 million for the second quarter ended June 2018, an increase of 10.5% over the previous quarter.

## KEY FACTS

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<b>Web Address</b>	<a href="http://www.hilton.com/en/corporate">www.hilton.com/en/corporate</a>
<b>Revenue / turnover (USD Mn)</b>	9,140.0
<b>Financial Year End</b>	December
<b>Employees</b>	163,000
<b>New York Stock Exchange Ticker</b>	HLT

## SWOT ANALYSIS

Hilton Worldwide Holdings Inc. (HWHI) is a global hotel management company. Improved cost efficiency, multi-brand strategy and hotel portfolio are a few of the key strengths of the company, even as its liquidity position remains an area for improvement. Stiff competition, unforeseen circumstances, and online theft and hacking may affect the growth of the company. However, strategic initiatives, recent launches, and positive outlook for US travel and tourism industry may offer significant growth opportunities for HWHI.

<p><b>Strength</b></p> <p>Cost Efficiency Hotel Portfolio Multi – Branding Strategy</p>	<p><b>Weakness</b></p> <p>Liquidity Position</p>
<p><b>Opportunity</b></p> <p>Positive Outlook for US Travel &amp; Tourism Industry Strategic Initiatives Recent Launches</p>	<p><b>Threat</b></p> <p>Increasing Manpower Costs in US Unforeseen Circumstances Competition Online Theft and Hacking</p>

### Strength

#### Cost Efficiency

The company reported improvement in cost efficiency during FY2017. In FY2017, HWHI's operating cost as a percentage of sales stood at 85.7% in FY2017 compared to 87.1% in FY2016. This was due to increase in revenue by 23.8%, from US\$7,382 million in FY2016, to US\$9,140 million in FY2017. This was due to increase in management and franchise revenue by 25.5%; other revenues by 28%; and other revenues from managed and franchised properties by 31% in FY2017. The improvement in cost to sale ratio resulted in improvement in operating margin. The operating margin increased to 14.3% in FY2017 from 12.9% in FY2016. In addition, its operating income increased from US\$952 million in FY2016, to US\$1,312 million in FY2017.

#### Hotel Portfolio

The company's strong hotel portfolio enhances its top-line performance and enables it to cater wide range of customers and attract new customers. As on December 31, 2017, the company's Management and Franchise segment managed 656 hotels, 48 timeshare resorts and 4,507 franchised hotels with total rooms of 833,909. Its Ownership segment operated 73 properties with 22,206 rooms, including 64 wholly owned or leased hotels; six hotels owned or leased by unconsolidated affiliates; two hotels leased by consolidated variable interest entities (VIEs) and one hotel owned by a consolidated non-wholly owned entity. During FY2017, the company received approval for development of about 108,000 new rooms, and

opened 399 hotels consisting of more than 59,000 rooms. In addition, it had a total of 2,257 hotels in development pipeline, which represents approximately 345,000 rooms under construction or approved for development throughout 107 countries and territories, including 39 countries and territories.

#### Multi – Branding Strategy

Multi branding strategy enables the company to pursue multiple market segments. The company operates hotels and resorts under premier brand portfolio including Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, and Canopy by Hilton. Its full service hotel are operated through brands, including DoubleTree by Hilton, Hilton Hotels & Resorts, Tapestry Collection by Hilton, Curio - A Collection by Hilton, and Embassy Suites by Hilton. The focused service hotel are operated under brands comprising Hilton Garden Inn, Homewood Suites by Hilton, Home2 Suites by Hilton, Hampton by Hilton, Tru by Hilton, and Hilton Grand Vacations and timeshare hotels under Hilton Grand Vacations brand. The multiple brands qualify Hilton to compete across different price segments, lifestyles and offer differentiated services to attract consumers seeking variety. For instance, the company's brand, Waldorf Astoria Hotels & Resorts and Hilton Hotels & Resorts targets to the affluent group of the society. Its Conrad Hotels & Resorts offers travelers, with experience of luxury and style. The company's Hampton Hotels and DoubleTree primarily targets the leisure travelers. Through Homewood Suites, it offers home-like accommodations for travelers for an extended stay. Multiple brands enable the company to develop products related to a particular market segment, yield economies of scale in advertising, sales and merchandising and differentiate its products from its counterparts to gain competitive advantage.

### Weakness

#### Liquidity Position

The company reported decline in its liquidity during FY2017. The company reported 43.6% decline in its current assets, 46.3% in cash and cash equivalents in 2017, and 8.3% decline in current liabilities. Decline in current assets and cash and cash equivalents affects the working capital and short-term liquidity of the company and led to decline in its liquidity indicators such as current ratio and quick ratio. In FY2017, it reported current ratio of 0.8 times as against 1.32 times in FY2016. The declining current ratio indicates that the company is in a weak position to meet its short-term obligations. Thus, the company would have to depend on external sources to fund its operational flow.

### Opportunity

#### Positive Outlook for US Travel & Tourism Industry

The company is likely to benefit from the positive outlook for the US Travel and Tourism (US T&T) industry. As per the World Travel & Tourism Council (WT&TC), direct contribution of the US T&T industry to the country's GDP is expected to increase by 3.4% in 2018 and by 2.5% per annum during the forecast period (2018-2028) to reach US\$673.9 billion in 2028, in comparison with US\$509.4 billion in 2017. Moreover, the industry's total contribution to the US economy is expected to increase from US\$1,501.9 billion in 2017 to US\$1,954.1 billion in 2028. The visitor exports are estimated to increase by 3.4% per

annum during the forecast period to reach US\$291.7 billion in 2028, up from US\$200.7 billion in 2017. In addition, a rise in investments in the US T&T industry to US\$176.3 billion in 2028 is likely to boost activities within the industry.

### Strategic Initiatives

The company is taking various strategic initiatives to enhance its operations and performance. In this direction, in March 2018, the company opened a new hotel, Hilton Belgrade in Serbia's capital city, between the idyllic Danube and Sava rivers. This new hotel's features and amenities include contemporary guest rooms, dining outlets, sauna, thermal baths, relaxation room and fitness room as well as meeting spaces, such as boardroom, ballroom, urban garden and three additional meeting rooms. In the same month, the company entered into a franchise agreement with BC Hospitality Group A/S (BCHG) to open a new hotel in Copenhagen, Hilton Hotels & Resorts by 2020. The hotel will feature a fitness center, lobby, executive lounge, bar and two restaurants, of which one restaurant will boast panoramic views across the Copenhagen waterfront. Furthermore, in the same month, the company signed franchise agreements with Naos Hotel Groupe and NT Hotel Gallery to open a Hilton Garden Inn hotel in the Parisian suburb of Massy and a Hampton by Hilton property near Toulouse Airport. This initiative will enhance the company's portfolio in France by introducing new brands at key transport hubs. In February 2018, the company opened a new resort, Hilton Cabo Verde Sal Resort on the Island of Sal in Cabo Verde. This new resort offers a natural stone pool set within a tropical garden, a kids club with a children's pool, 24-hour fitness center, a nautical center for diving and sailing activities as well as dining options, 24-hour room service and a minibar. In the same month, the company announced its plans to open sixth Hilton hotel in the Egyptian capital. This new hotel will comprise 593 rooms. In January 2018, the company opened Hilton Huizhou Longmen Resort in China with natural hot springs. This new hotel expands its presence in Southern China and features 366 guest rooms and has easy access to the Guangzhou or Baiyun International Airport.

### Recent Launches

Recent launches by the company will help in driving top-line performance by serving a huge customer base. In November 2017, the company and American Express upgraded American Express Hilton Honors co-branded credit card portfolio with the addition of four new cards. These cards are designed to serve consumers and small businesses with more benefits, choices and value as well as reward its customers and enhance travel experiences. In July 2017, the company tied-up with Travel and Transport, a travel management company, for app integration. This app is for its Hilton Honors loyalty program hotel chain, which has approximately 60 million members. This app can be directly accessed from Travel and Transport's Dash Mobile app. It provides its members access to information about hotel check-in times and locations, selecting a room and accessing a digital room key for over 1,700 hotels. Also, it enables travelers to view previous trips and invoices, and export the data into expense-management tools.

### Threat

#### Increasing Manpower Costs in US

Increasing manpower costs may have a negative effect on the company's operating costs and adverse

effect on its profits. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs. The federal minimum wage rate in the US reached US\$7.25 per hour in January 2018. Nearly, 18 states and 20 cities, including New York City, Washington, D.C., and California cities increased their minimum wage to US\$12 and above. Arizona and California increased their minimum wage by US\$0.5 per hour to US\$9.80 and US\$11 per hour, respectively; and Alaska increased their minimum wage by 0.04 to US\$9.84. Colorado, Florida, Hawaii, Maine and Michigan increased their minimum wages to US\$10.2, US\$8.25, US\$10.10, US\$10 and US\$9.25, respectively. Moreover, New Jersey, Ohio, Washington and Rhode Island increased their minimum wages to US\$8.6, US\$8.3, US\$11.5 and US\$10.1, respectively.

#### Unforeseen Circumstances

The company's operations may be adversely affected by unfavorable events. Occurrences of ebola virus, swine flu, SARS, mad cow disease and bird flu resulted in a decline in tourist arrivals in the affected countries. Precautionary measures such as flight suspensions impacted the leisure market. Moreover, natural disasters such as flooding in India and the US in August 2017 and in China in June 2017, and the 2016 earthquake in Ecuador eroded the revenue of industry operators. Similar incidents may also lead to people reducing their travel frequency to certain countries. In addition, terrorist attack in Spain in August 2017, in the UK in June 2017, and in Jordan and Turkey in December 2016 and the rise of new terrorist groups such as Islamic State of Iraq and Syria (ISIS) raised security concerns worldwide.

#### Competition

HWHI operates in a highly competitive global hospitality services industry. It competes with other domestic and foreign hospitality services providers. It competes with peers based on factors such as hotel location, service quality, charges, ratings by agencies, and variety of services offered. Some of the key competitors of HWHI include Accor S.A., Carlson Rezidor Group, Choice Hotels International, Hongkong and Shanghai Hotels, Hyatt Hotels Corporation, Intercontinental Hotel Group, Marriott International and Wyndham Worldwide Corporation.

#### Online Theft and Hacking

The company uses information technology in its various business transactions such as management software, stock system, accounting software, online booking engines, email, internet, poses significant risk from online identity theft and hacking. The company's online portal operations contain diverse security mechanisms, and are vulnerable to unauthorized attacks (break-ins or denial-of-service attacks) and similar disruptions caused by Internet users. The extent of Internet security at HWHI is dependent upon the quality of the hardware and software utilized, which may not protect the company's portal from unauthorized attacks resulting in break-ins and other disruptions system failures. These security breaches may threaten the security of data stored by HWHI within the scope of its services and their transmission by these computer systems.

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