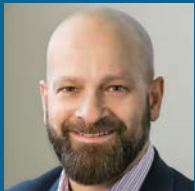


Hilton

765,000 rooms globally: how do you manage risk?

Wednesday 8th February 2017 at 11:00 EST | 16:00 GMT | 17:00 CET



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Getting Control of Interco Loans

Hilton

2016 Adam Smith Award (Highly Commended): Best Risk Management Solution

2/8/17 Fred Schacknies
SVP & Treasurer



CONRAD
HOTELS & RESORTS™

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CURIO
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COLLECTION
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HOMEWOOD SUITES
BY HILTON

HOME2
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With 4,820 properties & 789,000 rooms in 104 countries and territories, Hilton is one of the world's largest hotel companies

Hilton

13 Industry-leading global brands that drive a 14% global RevPAR premium^(a)

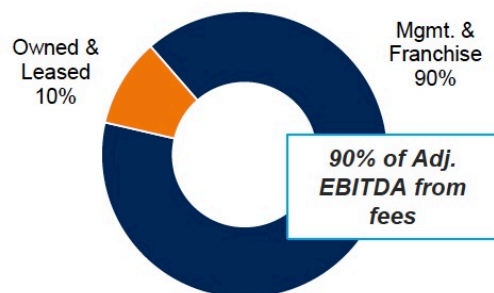


Strong commercial engines support an estimated \$36 billion in annual system revenue^(b)

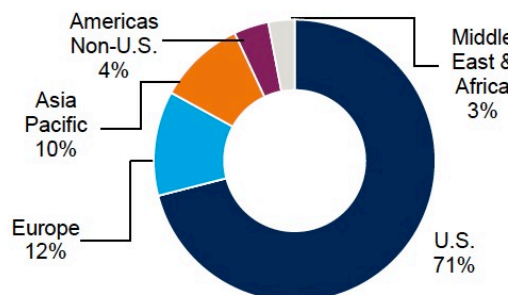


Diversified across business segments, geographies and chain scales

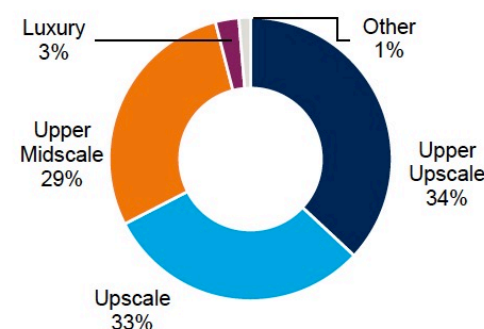
Adj. EBITDA by Business^(c)



Adj. EBITDA by Geography^(c)



Current Rooms by Chain Scale^(d)



(a) Source: STR (12 months ended 12/31/2015). "RevPAR" or "Revenue per Available Room" represents hotel room revenue divided by roomnights available to guests for a given period. (b) System revenue includes estimated revenues of franchised properties in addition to revenues from properties owned, leased or managed by Hilton. (c) Based on 2016 proforma Adj. EBITDA excluding Corporate and Other. (d) Room count as of 9/30/2016. Other includes HGV.

Hilton History

Hilton

- 1919** Conrad Hilton opens his first hotel in Cisco, Texas
- 1946** **Hilton Hotels Corp** lists on NYSE
- 1967** Hilton International spun off as separate business
- 2006** Hilton Hotels Corp reacquires Hilton International
- 2007** Hilton acquired by Blackstone in \$26 billion LBO^(a)
- 2009** Company relocates from Beverly Hills to McLean, Virginia and renamed **Hilton Worldwide**
- 2013** Company refinances \$13 billion of debt and relists on NYSE in \$2.4 billion IPO
- 2017** Company spins off real estate (Park Hotels & Resorts) and timeshare businesses (Hilton Grand Vacations) and renamed **Hilton**

(a) Hilton Hotels Corporation completes merger with an affiliate of The Blackstone Group's real estate and corporate private equity funds.

Spin-offs completed January 4, 2017

Hilton

Hilton

An industry-leading fee business

- 90%+ Adj. EBITDA expected to come from fees, of which 90% will be franchise and base management fees
- Industry-leading organic net unit growth
- Growth requires de minimis investment on our part

- CEO: Chris Nassetta

PARK
HOTELS & RESORTS

Premium assets with a scaled platform and strong growth potential

- Will be one of the largest public lodging REITs
- High-quality portfolio of 67 premium-branded hotels and resorts with nearly 35,000 rooms located in prime markets with high barriers to entry
- Focused on generating attractive long-term total returns by enhancing the value of its properties and utilizing its scale to efficiently allocate capital

- CEO: Tom Baltimore

HILTON
GRAND VACATIONS

A fast growing, capital efficient timeshare business

- 46 resorts, representing 7,592 units, located in iconic leisure and urban vacation destinations
- Successfully transformed to a capital efficient model, pursuing an inventory strategy focused on fee-for-service and just-in-time inventory acquisition
- Long-term relationship with Hilton

- CEO: Mark Wang

You can't manage what you can't measure

- Large, complex portfolio of intercompany loans
 - 100s of transactions involving 100+ entities, 50+ countries, 30+ currencies
 - Multiple processes, teams and points of data management
- Visibility to risk obscured
 - No clear delineation of risk impacts
 - Earnings impact clear after the fact, but not prospectively
 - Cash flow impact not easily measureable
- The least of three evils?
 - Hedge it all
 - Ignore it all
 - “Gordian knot”

Establishing control and visibility

Data Management

■ Technology

- Global treasury system
- Aggregation of interco loans across legacy systems

■ Process

- Single IHB (replacing six)
- Categorization: IHB-STN-LTN

■ Policy

- Standard approvals
- Standard terms & conditions

Data Analysis

■ Risk Characteristics

- Multifunctional review by Treasury, Tax, Accounting and Operations Finance
- Active vs. static loans
- Working capital vs. funding

■ Metrics

- Cash Flow-at-Risk (CFaR)
- Earnings-at-Risk (EaR)

Risk Management

■ Current Activity

- New or old loans with ongoing cash flow
- **Hedged** through a single IHB to neutralize EaR and CFaR

■ Long-Term Notes

- **Designated** as “permanent nature” per US GAAP to remove EaR^(a)

■ Other Activity

- Flagged for near-term or future **rationalization**
- Incurring EaR until then

(a) Per US GAAP (ASC 830), remeasurement of cross-currency intercompany loans deemed to be of a *long-term nature* may be recorded in Other Comprehensive Income (equity), instead of earnings.

Framework for interco working capital

Sources of Capital

- Local cash (surplus)
- In-house bank drawdown
- Short-term notes
- Long-term notes
- Equity



Uses of Capital

- Local cash (cushion)
- Interco debt service
- Interco debt prepayment
- In-house bank deposit
- Equity (dividend or return)

Better understanding, lower risk

- ✓ Common data process and source
- ✓ Defined standard terms & conditions
- ✓ Defined roles & responsibilities
- ✓ Common understanding across multiple teams
- ✓ FX cash flow risk reduced to negligible levels
- ✓ FX earnings risk materially reduced
- ✓ Foundation for understanding subsequent changes in intercompany FX risk

Hilton

QUESTION TIME



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