Hilton completes split into three independent companies

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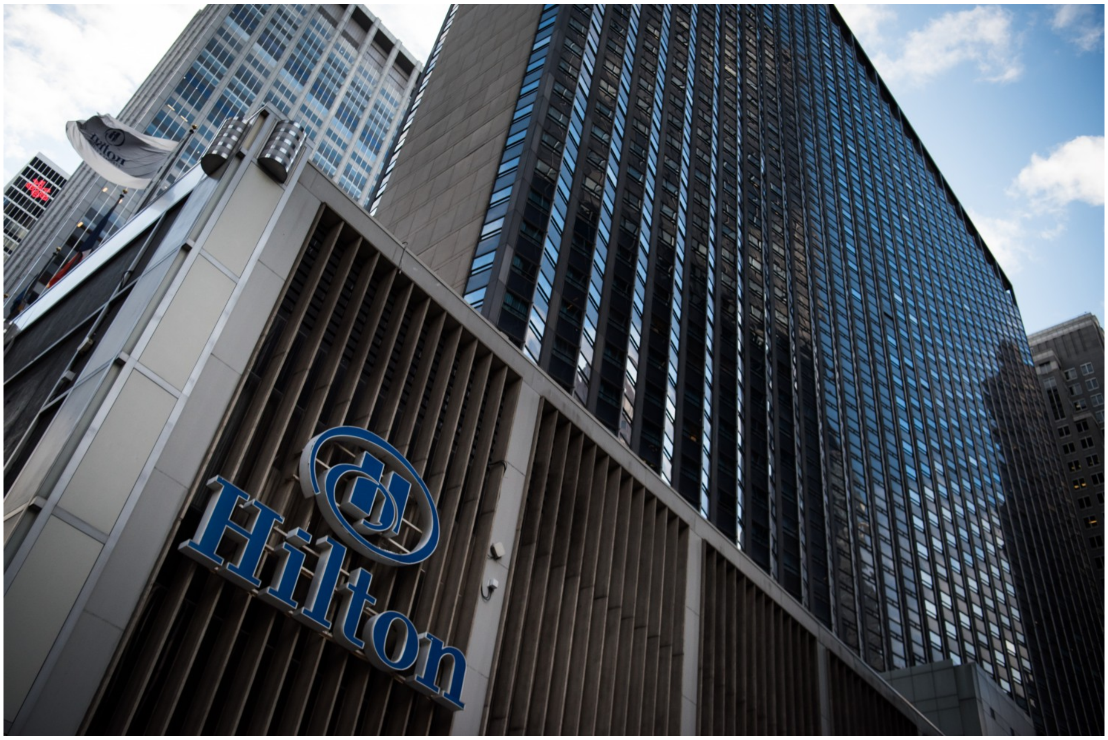
By Abha Bhattarai



Hilton Worldwide Holdings Inc. signage is displayed outside the company's Midtown hotel in New York. (Mark Kauzlarich/Bloomberg News)

Hilton Worldwide completed its split into three independent companies this week as part of an effort to lower the company’s taxes and boost value to shareholders.

The new real estate and timeshare spinoffs — Park Hotels & Resorts and Hilton Grand Vacations — debuted on the New York Stock Exchange on Wednesday with mixed results. The long-term hope, according to company executives, is to create more efficient companies, each with its own objectives and goals.

“Does this allow us to be more focused? Of course it does,” said Christopher J. Nassetta, president and chief executive of McLean-based Hilton. “We are going to be able to create a lot more value for shareholders as three independent companies than we would have been able to as one combined entity.”

The move also allows shareholders to choose which parts of the business they’d like to invest in, he said. The timeshare and real estate businesses, for example, tend to be more capital intensive, meaning that they require larger cash investments to grow and become profitable than Hilton’s hotel business does. In the past, Hilton shareholders often shied away from accommodating those needs, which may have hindered profits and growth.

“What this means is that each company is now in the hands of shareholders that are interested in its specific goals,” said Rachael Rothman, an analyst for Susquehanna International Group. “Hilton shareholders won’t necessarily want to remain in each of the three businesses, so we’re likely to see a lot of movement.”

On the first day of trading, shares of Park Hotels fell 1.98 percent, while shares of Hilton Grand Vacations climbed 1.1 percent. Hilton Worldwide’s stock, meanwhile, rose 3.2 percent to close at $58 per share.

As part of the deal, Hilton shareholders received two shares of Park and one share of Hilton Grand Vacations for every 10 Hilton shares they owned. Shareholders also approved a stock-split last month that effectively reduced the company's outstanding shares from 990 million to 330 million.

Park Hotels is now the country's second-largest hotel real estate investment trust, behind Bethesda-based Host Hotels & Resorts. The company, which is based near Hilton's headquarters, oversees 67 Hilton properties, accounting for about half of the properties Hilton owns and leases around the world. Many of them are high-end U.S. hotels, including the Hilton New York Midtown, the Waldorf Astoria beach resort in Key West and the Capital Hilton in downtown Washington.

Thomas J. Baltimore, chief executive of Park Hotels, says he plans to eventually add other, non-Hilton hotels to the company's lineup.

"There is significant opportunity for growth," said Baltimore, previously chief executive of RLJ Lodging Trust in Bethesda. "When you start with a base of such significant scale — 67 properties, 35,000 rooms — it's a very attractive proposition."

Real estate spinoffs, popular among large hotel companies as a way to pay lower corporate taxes, were outlawed by Congress in late 2015. Hilton, however, was able to move ahead with its plans because it sought permission from the Internal Revenue Service before the Dec. 7 cutoff that year set by Congress, according to a company spokesman.

"Hilton was grandfathered in, so it was a now-or-never strategy," said David Katz, an analyst at Telsey Advisory Group, a research firm in New York. "This is where the industry has been going for a long time, and it was a no-brainer for Hilton."

The company's decision to spin off its timeshare business also follows in the footsteps of a number of major hotel chains that have taken similar measures in recent years, including Marriott International in 2011.

Shares of the timeshare business, Marriott Vacations Worldwide, have more than tripled since then, outpacing the parent company's stock. Hyatt Hotels and Starwood Hotels & Resorts (now part of Marriott) later followed suit.

Hilton Grand Vacations, based in Orlando and led by Hilton veteran Mark Wang, includes nearly 50 timeshare resorts in the United States and Europe. Analysts value the company at about $2.1 billion.

"Frankly, all three entities are likely to benefit because of this split," Katz said. "The remaining Hilton can operate on a much thinner, leaner capital structure and still grow."

Hilton, which has 4,700 hotels around the world, has been particularly aggressive in building new properties. It has 144 new hotels in the works. The company returned to the New York Stock Exchange in 2013 after six years of private-equity ownership by Blackstone. It raised $2.35 billion in its initial public offering, marking the largest IPO by a hotel firm.