



HILTON HOTEL

Financial Management for the Hotel Industry BMIH5007



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Executive Summary

The purpose of this report is to analyse the financial statements of Hilton Worldwide.

This analysis will use horizontal analysis to find out what has happened between 2019 and 2020 financially. These calculations between the years will help in investigating and determining what comparisons can be made between the years.

The essay will also explore why ratio analysis is important to decision making and what limitations there are when using ratio analysis to provide the financial standings for a business.

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Introduction

Hilton Hotel is internationally recognized as a global leader in the hospitality industry. The company has approximately 2,200 properties that it owns, manages and franchises. (Hilton, 2020) Companies like the Hilton aim to make their business. Hilton Worldwide Holdings Inc is a hospitality company that manages hotel portfolios worldwide. All businesses want to be financially strong and maximise the value of the company. Hilton is no different.

To find out this information in a simple format, ratio analysis can be used. This is an important tool in analysing the position of a company's financial state. Undergoing investigation of the financial statement of the company, especially the ratios, can help give a clearer understanding of the cooperation's financial standing.

Financial Analysis Calculations

Table 1 – Income statement for Hilton Hotel

Income Statement Hilton Worldwide Holdings Inc. (HLT)				
	2020	2019	Change	% Change
Fiscal Year Ends	31/12/2021	31/12/2020		
Sales	4,307,000	9,452,000	-5145000	-54
Cost of goods sold	3,724,000	7,017,000	-3293000	-46
Gross profit	583,000	2,435,000	-1852000	-76
Operating Expenses	702,000	859,000	-157000	-18
Operating income	-119,000	1,576,000	-1695000	-107
Interest Expense	429,000	414,000	15000	3.
Total Other income/ expenses net	-376,000	82,000	-458000	-558
Income before taxes	-924,000	1,244,000	-2168000	-147
Net income	-715,000	881,000	-1596000	-181

Table 2 Balance Sheet for Hilton Hotel

	2020	2019	Change	% Change
Current Asset	4,202,000	2,093,000	2109000	100
Non-Current Asset	15,810,000	12,558,000	3252000	25
Total Asset	16,755,000	14,957,000	1798000	12
Current Liabilities	2,431,000	2,871,000	-440000	-15
Noncurrent Liabilities	15,810,000	12,558,000	3252000	25
Total Liabilities	18,241,000	15,429,000	2812000	18
Common Stock	3,000	3,000	0	0
Retained Earnings	-6,732,000	-5,965,000	-767000	12
Total Stockholders' Equity	-1,490,000	-482,000	-100800	-209
Total Liabilities and Stockholder	16,755,000	14,957,000	1798000	12

To work out the current ratio which is in the final column of both Table 1 and Table 2 using Equation 1.

$$\%Change = \frac{(Previous\ Year - Current\ Year)}{Previous\ Year} \times 100 - Equation\ 1$$

Financial Analysis Trends

The finance statements above were analysed, and horizontal ratios were calculated. The change was calculated by selecting 2019 as the base year and subtracting the value for 2020 from that 2019 value, giving us a value for change. The change value was divided by the base value, and then multiplied by 100 to give us a percentage change. By doing this, the changes can be quantified in a way that is easily understandable within the context of the numbers.

From Table 1, Hilton has had a decrease in sales by over 50%, as well as fall in gross profit by over 75%, and a fall in operating income by over 100%. These three points would imply that HLT started failing after 2019 or is continuing a trend from 2018. Whilst there is also a decrease in costs and expenses, the offset isn't enough to affect the great decrease in income and profit.

Taking a look at the balance sheet, one of the main differences between 2019 and 2020 is the asset to liability relationship. In 2019, the current liability/short-term debt for the company was greater than that of the company's assets, which is the money used to pay off these debts. However, after an over 100% increase in assets, as well as an approximately 15% decrease in debts, HLT now has more than enough to pay off the short-term debts. This is seen as positive development, because this means that the debts were paid, and this is also attractive for investors, as knowing whether a company can pay liabilities or not is a must. However, when looking at the total

assets, which covers current, long-term, and intangible assets, and applying those numbers to the total liabilities, which cover the same span of liabilities (Tamplin, 2021), it can be seen that the liabilities outweigh the assets by a small amount. This on its own wouldn't be enough to cause problems, however the fact that this is the case for both 2019 as well as 2020 would call for a negative trend. Not only that but the ratio of assets to debt has also decreased, from 0.98 in 2019 to 0.92 in 2020. A company would want this number to be either equal to or greater than 1, so seeing the number decrease over time is a problem.

Importance of Ratio Analysis

Ratio Analysis first began in US banks in the 19th Century to help organizations understand the loan that needs to be repaid. This was then introduced to investors for decision making. (Kota, 2020)

It can be difficult sometimes to compare difficult to compare a company's performance over the years. The technique of comparing the relationship between two or more items of financial data from the company's financial statement is called ratio analysis (Penman, 2001) It is a fair way to make comparisons across different years for a company. (gocardless, 2021) This is rather essential for a company to examine success and failures. Not only can the company compare its own profits between year by year it can also be used to make comparisons between other companies.

Ratio Analysis covers profitability, liquidity and efficiency.

Now, why is ratio analysis important?

Ratio analysis is important to stakeholders to interpret the financial statements, different stakeholders may have different interest when examining the analysis, for example equity investor; they invest in a company with presumption they will rise in capital gain (Blackrock , 2022), are interested in earnings power of the company. (Banerjee, 2021) Using income statements and balance sheets for the future, the ratio analysis can be used to predict future numbers.

Secondly, ratio analysis can help identify the efficiency of a company and ability to generate profit. For example, gross margin explains how the company's profit from sales and operating efficiency is generated. (Thakur, 2021) As well as this, from the point of view of a manager, ratio analysis can be used to estimate the company's future finances and operations. Since the manager can see how the hotel has done in the previous years, the manager can make changes in finance, budgeting and planning for company's future operations.

Ratio Analysis can help to determine if the company can pay off its short term debts (those that can be paid off in 12 months) This can mean salaries for example. The current ratio can be used measure the liquidity of the firms. (Banerjee, 2021)

Limitations of Ratio Analysis

Like with all businesses, ratio analysis is vital to management. This is due to to the hospitality industry having fixed and tangible assets that need to be accurately analysed using specific set of financial ratios.

Unfortunately, ratio analysis does come with some limitations despite being very useful to a number of people in the business, whether that is investors, stakeholders or even company managers, ratio analysis cannot tell the whole story of a business.

Firstly, the ratio analysis information is not current and depends on historic data, this means that the data does not necessarily showcase the company's future performance. Ratio analysis uses financial statements that have been released on a yearly basis, therefore there is a time difference between the release of the financial statements. This means that if there was inflation in-between these two points of time, the analysis would not reflect inflation and would not be an accurate comparison for the two periods of time. This analysis would then need to be adjusted for inflation. (CFI, 2022) Similarly, fixed assets do not show a change in price level which makes comparison over the period of times difficult.

Accounting polices between the period of times my change, this can affect the final financial report. This may mean the financial metrics in the analysis are changed and therefore the financial results made after this alteration cannot be compared to the

recorded results prior to the change. This can be solved however if the analyst is aware of these changes. (Lesáková, 2007)

Likewise season effects can also be unaccounted by analyst, therefore this would lead to a false outlook for the hotel. The hotel may make purchases during a specific season.

Other limitations is that, the human element of the firm cannot be measured ; ratio analysis can only be used to compare between companies that are similar sizes therefore a small run hotel would not be able to compare its financial statements with Hilton Worldwide and other business may be more unwilling to compare their information.

Conclusion

In conclusion from inspecting the data, it shows the Hilton is in a decline. This is evident in the large decrease for gross profits, over the year sales and then overall income. There is also a decrease in cost of goods and expenses even though it is far smaller than the former. As well as this, the total liabilities of the company are exceeding its assets, and it has an extremely negative stockholder's equity. Even if the short-term liabilities are covered by the current assets, the total assets are too small.

If Hilton attempt to analyse the problems and try to come up with solutions, it should be said that these ratios are a good way to examine said problems, as they cover a wide range of the different expenses and incomes. Not only that, but they're an important way to quantify the values in an easily interpretable way, extracting trends and making solid predictions for the company in the future, estimating the numbers for the next year, and possibly even later.

Furthermore, they're able to identify aspects of the company like profitability as well as efficiency, and how much money is being diverted into different sectors, such as the short-term and long-term assets to pay respective debts, and where changes can be made should they be necessary.

As stated, it should be said that there are a fair few limitations to these methods.

This includes the fact that the data on the finance sheets isn't live/current, and based purely off historical data, and that the data does not factor in processes such as inflation. Other limitations have to do with possible changes in the accounting sector, seasonal changes, as well as the fact that these ratio analyses only work with companies of similar stature.

Even with these limitations, a company such as the Hilton would be making a correct choice in performing more in-depth ratio analyses to examine their problems, so long as the limitations are accounted for. With the proper attention, HLT may be able to come back from its decline.

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