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Executives from Park Hotels & Resorts, Hilton Grand Vacations and AccorHotels shared their insights on recent and in-progress spinoff transactions involving their companies during the recent NYU International Hospitality Industry Investment Conference.

Shari Mager, of KPMG; Sean Dell'Orto, of Park Hotels & Resorts; Thomas Dolan, of HVS; James Mikolaichik, of Hilton Grand Vacations; and Jean-Jacques Morin, of AccorHotels; talk about hotel industry spinoffs. (Photo: NYUSPS/Elena Olivo)

NEW YORK—Officials with Hilton's two recent spinoffs, Park Hotels & Resorts and Hilton Grand Vacations, and AccorHotels recently shared some insight into why those companies decided to separate portions of their businesses and what benefits they've derived from the moves.

Speaking at the "Art of the spin: Hotel owners embrace a different ownership structure" panel at the NYU International Hospitality Industry Investment Conference, Park EVP, CFO and Treasurer Sean Dell'Orto said in considering spinoffs of Hilton's hotel ownership and vacation rental platforms, the company looked at the precedent set in the 1990s with Marriott International's spinoff of Host Hotels & Resorts.

"Hilton still had a legacy portfolio of real estate that was capital-intensive, and the same was true ultimately for timeshares as well," said Dell'Orto, who served as Hilton's treasurer prior to the spinoff. "So, ultimately there's an opportunity there to monetize them in an efficient manager and ultimately go capital-light for Hilton."

He said the move comes with recognition that there are dedicated investors for hotel real estate investment trusts like Park or Host, and there is a different market for branding companies and timeshare businesses.

Rationale for spins

Dell'Orto said plans for spinoffs were in the works since Hilton's 2013 initial public offering, which marked the company's return to public markets following the Blackstone Group's 2007 purchase of the company taking it private.

Hilton completed its two spins within a window of about a year, which was an accelerated timeframe for tax reasons.

Hilton had a hard deadline with its spinoffs in order to be grandfathered into Internal Revenue Service rules that were more favorable tax implications for real estate spinoffs but expired on 7 December 2016 after the U.S. Congress changed them at the end of 2015.

"The regulatory aspects drove a lot of the timing that we had," Dell'Orto said. "We kind of raced the IRS, the Treasury and ultimately Capitol Hill on some of the changes they were making. … We ultimately had to get it done in a short amount of time."

He said this timetable was particularly difficult on the Park side compared to the spinoff of Hilton Grand Vacations.

"The timeshare business as a division kind of already was established with its leadership team and could be spun out, but then with the REIT, you had real estate embedded with the overall organization," he said. "You had an asset-management team looking over it and being good stewards of the asset, but you didn't have a team around that driving that business as a separate division, per se."

Dell'Orto said Hilton officials recognized how valuable their owned hotels and timeshares were, but weren't able to give them as much attention as dedicated management teams can.

"You can grow those businesses faster and better with separate management teams focused on them," he said.

He noted the work was especially difficult because many of the people involved in the spins were basically doing the work of two or three positions simultaneously.

Ultimately, that work seemed to pay off, panelists said, and James Mikolaichik, EVP and CFO for Hilton Grand Vacations, said the spinoff of his company ended up being the best of both worlds.

"We were able to keep all the good that came out of this strategy setting and putting good executives in place that were working across the organization differently than they were before siloed in the old organization," he said. "And at this point, we can approach the rationale Sean went through that had capital implications, operating implications and dedicated management but not lose all the good things that came out of taking the company private and getting it ready to go back out."

AccorHotels' Group CFO Jean-Jacques Morin discussed his company's plans to carve out owned assets as a new platform called portfolio, which was be held privately by a number of third-party investors. He said the move was made at least in part to please investors, but that's not always the easiest goal to accomplish.

"I've been in the company a year and a half, and every road show I go to, the No. 1 question would be when are we going to do what Marriott did 25 years ago (with the Host spinoff), which is a bit heavy of a command," he said. "But it's very true that today when you try to explain the performance of a corporation that is mixing a (property company) and an (operating company), it's very difficult to go and explain it in simple terms. So, investors really like a simple story they can go through, understand and act on."

As well-reasoned as that rationale may be, Morin said the company is now being questioned by investors at road shows on why they're making the move instead of why they haven't already done it.

It's difficult to gauge how well the spins represented on the panel have worked out, given Park and HGV have only existed as separate entities since the beginning of January and AccorHotels is still working through its separation of HotelInvest.

Morin noted he wished the process, which was first announced in July 2016, would have wrapped up at this point. He said ideally a spin transaction would wrap up in roughly a year.

"We're not finished, yet," he said. "We're in the most difficult phase of negotiations with very sophisticated investors. … We're trying to find the right terms to please everybody so everybody finds what they're looking for."

Dell'Orto said Park still has significant internal work to do following the spin, in part because of the truncated nature of its spin timeline.

"We're still on Hilton's financial systems," he said. "So we're working to get a new financial system in place over the next year or so. For payroll … it's all in startup mode. So people are working hard to get that all established over the next 12 months."

Tips for spins

Mikolaichik stressed that there's no such thing as being too prepared when it comes to carving out a piece of an existing business.

"I'd say you can't plan enough," he said. "Specifically when you're a smaller part of the business if you're a 9% to 10% player in the party and you need to get out in front of rating agencies. We were raising a couple different tranches of debt. Ultimately we had to get out to the equity markets."

He said it's key in that circumstance to "figure out where your shareholder base is going to come from."

"You need to get out in front of them early and often," Mikolaichik said.

Morin agreed the finding the right investor base was key in the case of HotelInvest.

"It's a complex vehicle," Morin said. "It's not a REIT. So, a lot of the people looking for those things are sophisticated funds—sovereign funds or sophisticated asset managers. So you need to find the guys who would be in that market."