

Financial Analysis of Hyatt Hotels Corporation

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Abstract. Due to the epidemic, as well as the implementation of restrictions, the hotel industry has had a significant impact. Taking Hyatt Hotel as the entry point, this paper analyzed Hyatt Hotel's operating status and recovery from the epidemic by comparing the important accounting elements and financial ratio in different dimensions with the other three hotels, based on the financial data from their annual reports (Intercontinental Hotels Group, Carnival Corporation, and H World Group). Through the research, it is found that with the reduction of the restrictive policy, Hyatt recovered well from the epidemic, especially in the factors of net income gained the highest profit among the peers, and the ROE which has a much higher level than its peers at the same time they maintain a low long-term debt ratio. Also, its comprehensive operating condition was greater than that of its peers. However, there are still opportunities and challenges in the future, and it still needs to wait and see what happens next.

Keywords: Hospitality industry; performance evaluation; accounting analysis.

1. Introduction

Hyatt Hotels Corporation is one of the most well-known hospitality companies in Chicago, which has enjoyed the good fame of high-end hotels and excellent service around the world. As a leading enterprise in the hospitality industry, it provides full-service hotels and resorts, select-service hotels, all-inclusive resorts, and other properties, including timeshare, fractional, and other forms of residential, vacation, and condominium units. Hyatt operates 577 full-service hotels in more than 75 countries and its main markets are the United States (444 hotels account for 77% of revenue), and China (almost 100 hotels) [1]. Hyatt's offering includes four sets of hotels- the Timeless Collection, the Boundless Collection, the Independent Collection, and the Inclusive Collection, which have 26 hotel brands including 1263 hotels and resorts subordinated in these collections. Its strategy is to promote long-term sustainable growth and create value for stakeholders by maximizing the core business, integrating new growth platforms, optimize capital deployment.

In 2021, Hyatt acquired apple leisure group (ALG) which is the biggest acquisition in the company's history, and added 100 new properties. This behavior helps the company provide travel distribution and destination management services through ALG Vacations and a paid membership program through the Unlimited Vacation Club. What's more, it achieved a new record of industry-leading net room growth (19.5%) and also increased customer loyalty benefits [2]. Due to the COVID-19 pandemic and related travel restrictions and containment, the travel industry has suffered a negative impact on its operations. Take China's hotel industry for example, compared with the 2018 operating revenue of China's hotels, in 2019H1 the revenues severely decreased 55.1% from 209097 million to 93813 million. Moreover, the hotel's RevPAR during the Spring Festival in 2020 dropped to 113.29CNY from 413.04CNY in 2019 [3]. The main reasons for the hotel industry's operating difficulties during the epidemic are that the business volume fell off a cliff in the early stage of the epidemic, resulting in the break of many hotels' short-term capital chains. Secondly, because the long-term persistence of the epidemic has become unpredictable, future epidemic prevention and control will become a normal trend, so enterprises need to pay attention to the control of internal costs. Another point is the loss of personnel, such as due to the pressure of life and their own career development plan [4].

With the recovery accelerated throughout the year, Hyatt immediately make up the deficits and get surpluses, which makes 455 million net income at the end of 2022. But the hotel industry still

needs to make full use of external resources, such as the state on loans, taxes, and a series of supportive policies. And control enterprise revenue and expenditure, as far as possible to increase the inflow of cash flow. At the same time, it meets customer needs, service, and quality to achieve strict control, which is the most popular point that customers are concerned about [5]. Through these methods maintain the good condition of subsequent business performance [6].

2. Accounting Analysis

At the beginning year of 2023, Hyatt disclosed their operating results in 2022, so the accounting policies are analyzed based on the Annual Report in 2022. Three areas, revenue recognition, goodwill, and employee benefit plans, required management to execute a higher degree of judgments or significant estimates. To compare accounting policies, three peers were selected by the standard of market capitalization, including intercontinental Hotels Group (IHG), Carnival Corporation (CCL), and H World Group (HTHT), are identified by reasonable judgments [7-9]. However, the HTHT don't release the 2022 financial report, so analyzed based on the 2021 Annual Report.

2.1. Revenue Recognition

In 2022, Hyatt sold 3824 million dollars, at a high level among peers. And its revenue primarily derives from hotel management services, licensing of its portfolio of brands to franchisees, owned and leased hotel operations, distribution, and destination management services, and a paid membership club offering [1]. In addition, operating sales in the income statement is crucial, because it can reveal the operating conditions of the main business and can provide a way to compare with other data such as net income (NI), earnings before taxes (EBT), and other comprehensive income (OCI), which are able to significantly influence investors' behaviors. As can be seen, reasonable and accurate recognition is essential. For example, most of the time the income recorded under the accrual basis, or the cash basis is quite different. Therefore, it is undeniable that it will mislead analysts to do the wrong valuation if they do not recognize revenue appropriately in advance.

Hyatt clearly distinguishes between recognition, identifies the different sources of revenue, and explains how to account for them in certain situations. Revenue from the products and services provided to customers is generally recognized when their control has transferred to the customer. Owned and leased hotels revenues are derived from room rentals and services provided and these present revenues are net of sales, occupancy, and other taxes. Revenue from management mainly includes base fees, which are generally calculated as a percentage of total revenue, and incentive fees, which are generally calculated based on the hotel's profitability index. Revenue related to management and franchise agreement assets which are provided to customers is recorded in other assets and amortized to Contra revenue over the expected customer life, typically the initial term of the management or franchise agreement.

Compare with its peers, they have similarities in some aspects. The revenue of H World Group, which has many details is in a similar degree of accuracy of revenue recognition with Hyatt. Moreover, the International Hotels Group is more precise in classifying the revenue, which has lots of explanations in special circumstances than Hyatt. However, a basic point of revenue recognition of Carnival Corporation is different from others, the recognition of service was recognized at the time the services are performed, which is vague because it is hard to confirm a specific date. Hyatt's revenue recognition accounting policy appears to be reasonable and comparable to its peers. However, the complexity of Hyatt's operations requires significant judgment and estimates.

2.2. Goodwill

Hyatt followed the U.S. GAAP in accounting for goodwill and its impairment. Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets. Goodwill impairment is determined by comparing the fair value of a reporting unit to its carrying amount. In addition, Hyatt evaluates goodwill for impairment by using use income-based or market-based

methods annually in order to keep its accuracy and authenticity. If the carrying value exceeds the fair value, they will recognize an impairment charge in the consolidated statement of income for asset impairment based on the amount by which the carrying value of the reporting unit exceeds the fair value, limited to the carrying value of goodwill. These complicated calculations require the utilization of various judgments and estimates.

On 31 Dec 2022, Hyatt recorded the goodwill carrying value of \$3101 million related to the acquisition completed in 2021, which is the largest share of non-current assets (\$10062 million) in the balance sheet. Besides, the impairment loss of intangible assets was \$38 million. This amount is not a huge proportion part of Hyatt's net income (\$455 million). Therefore, Hyatt's goodwill does truly represent a significant portion of non-current assets, but its impairment is reasonable and does not result in an excess of intangible assets over tangible assets. So, the properly estimated impairment loss would not increase profit in the income statement and assets in the balance sheet [1].

These three peers also identified goodwill as one of their critical accounting policies, and the accounting policies for goodwill and impairment of IHG and CCL are like Hyatt. However, The H World Group not only puts the premium for the acquisition into goodwill but also recognizes other intangible assets that do not qualify for separate recognition into the goodwill. Goodwill represents a considerable portion of Hyatt's non-current assets and has a significant impact on both the balance sheet and the consolidated income statement. Thus, the company's annual estimate of goodwill and its impairment requires more accurate calculations and judgments.

2.3. Employee Benefit Plans

Hyatt has a very complex structure in employee benefit plans including defined benefit plans, defined contribution plans, deferred compensation plans, employee stock purchase plans (ESPP), and seniority premiums because Hyatt employs a considerable number of employees, which directly hires approximately 50,000 colleagues and approximately 189,000 colleagues working for Hyatt around the world. In terms of three peers, their accounting for employee benefit plans is not complicated as Hyatt's because they don't have such a detailed classification.

Hyatt recorded that the accumulated benefit obligation related to the unfunded U.S. plan was \$16 million and expects \$1 million of benefits to be paid annually over the next 10 years. And the ESPP provides eligible employees the opportunity to purchase shares of the Company's common stock on a quarterly basis through payroll deductions at a price equal to 95% of the fair value on the last trading day of each quarter. It all depends on several assumptions management has considered which factors can have an impact on the valuation results for year-end pension plan liabilities, such as discount rates, inflation rates, wage growth, and life expectancy. The most important assumptions are those related to the discount rate, inflation rate, wage growth, and longevity assumptions. These expenses are relatively fixed, may grow at a higher rate than revenues, and may not decrease at the same rate as revenues decline. The fixed cost nature of these expenses limits the lability to offset revenue reductions through cost-reduction initiatives, which could adversely affect the net cash flow and earnings. The effect is particularly pronounced during periods of economic contraction or slow growth, and when demand falls rapidly and sharply.

3. Performance Evaluation

The restrictions on tourism imposed by the epidemic have had a huge impact on the tourism industry in general and especially the hotel industry, which has caused Hyatt to not perform very well in 2021 and 2020. However, with the liberalization of the policy Hyatt's revenue in 2022 increased by about 95% compared to 2021. Below is an analysis of Hyatt's performance in five areas by using financial data and comparing it with its peers with their annual report [7-9].

3.1. Liquidity

Hyatt does not have very strong liquidity in FY 2022. Due to the surge of current maturities of long-term debt in the balance sheet. Long-term liabilities due in 2022 increased to \$660 million from \$10 million in 2021. From Table 1, it is apparent that Hyatt's current ratio is poor compared to its peers except for the H World Group. Nevertheless, by removing the influence of inventory (\$9 million), Hyatt is above average among its peers in its quick ratio.

Table 1. Liquidity ratios of Hyatt and its peers.

Company Name	Current ratio	Quick ratio
Hyatt Hotels Corporation	0.68	0.68
Intercontinental Hotels Group	1.09	1.08
Carnival Corporation	0.71	0.67
H World Group	0.63	0.62

3.2. Solvency

By analyzing the company's solvency ratios, it can more effectively understand the company's future ability to continue operating. From Table 2, Hyatt's long-term debt ratio is slightly higher than H World Group, but still better than the other two companions. InterContinental's ratio exceeds one because it has high long-term debt and results in negative shareholders' equity. Moreover, in total corporate assets, these hotels have a high total debt ratio, but Hyatt's ratio is the lowest among the peers, which shows that the company's overall solvency is better than its companions. In the last times-interest-earned ratio, Hyatt's ability to pay interest is the strongest among its peers, while Intercontinental does not have this ratio because it does not disclose the amount of interest it paid in 2022. And the CCL and HTHT have negative EBIT, which leads to their ratios being negative as well. According to the data, it is found that IHG's future business conditions are a concern, at the same time, Hyatt's data performance is quite good.

Table 2. Solvency ratios of Hyatt and its peers.

Company Name	Long-term debt ratio	Total debt ratio	Times-interest-earned
Hyatt Hotels Corporation	0.40	0.70	2.65
Intercontinental Hotels Group	3.19	1.38	N/A
Carnival Corporation	0.82	0.86	-2.72
H World Group	0.37	0.83	-3.24

3.3. Efficiency

InterContinental's efficiency ratio is best in terms of assets and inventory, followed by Hyatt, with the other two companies having much smaller ratios than Hyatt (see Table 3). However, their accounts receivable turnover ratio is much larger than Intercontinental and Hyatt, which is caused by their lower accounts receivable, while Hyatt's accounts receivable turnover ratio is higher than Intercontinental, which indicates that Hyatt is low accounts receivable to total cash flow and is faster than Intercontinental for cash recovery.

Table 3. Efficiency ratios of Hyatt and its peers.

Company Name	Asset turnover	Inventory turnover	Receivables turnover
Hyatt Hotels Corporation	0.47	620.11	8.03
Intercontinental Hotels Group	0.87	973.00	6.38
Carnival Corporation	0.23	31.04	37.97
H World Group	0.20	144.46	27.64

3.4. Profitability

From Table 4, Hyatt's profitability metrics are better than CCL and HTHT, especially in terms of gross margin and net income margin. Carnival Corporation is specifically all negative, which indicates that its profitability is not very well in 2022. Although InterContinental's margin metrics are better

than Hyatt's, InterContinental's shareholders' equity is negative in both 2021 (\$1481m) and 2022(\$1608m), which leads to a negative ROE as well. Only Hyatt maintains a positive ROE in 2022 and has a better value for the metric. Overall Hyatt's profitability is better than its peers.

Table 4. Profitability ratios of Hyatt and its peers.

Company Name	Gross Margin (%)	Operating Margin (%)	Net income Margin (%)
Hyatt Hotels Corporation	21.9	6.76	7.72
Intercontinental Hotels Group	83.4	16.14	9.66
Carnival Corporation	3.4	-35.99	-50.07
H World Group	11.8	0.20	-0.57

From the investors' perspectives, the Intercontinental Hotels Group's total assets cannot cover total liabilities and are responsible for the loss of shareholders' equity in two years that means although it has nice data in some ways, it was still under bad operating conditions. The Intercontinental Hotels Group may face the risk of not being able to pay debts in the future.

4. Brand and Reputation Analysis

In the hospitality industry, it is essential for Hyatt and its peers to make much effort to establish favorably impressive brands. Hyatt has a strong capital, and clear market segmentations by using different brands and strict financial calculation methods. The expansion rate is stable, pursuing quality rather than speed. Subsequently, professionals in the hotel industry also affirm Hyatt's quality control and its reputation is pretty good. They believe their business model can bring them more diversified revenue and income streams in the future, but the risks associated with significant investments in owned and leased could increase costs, reduce margins, or limit the ability to respond to the market. While InterContinental Hotels refines its portfolio while investing in established brands, this lays the foundation for it to continue to grow over the next few years and is enhancing all-around capabilities thereby increasing its future competitive advantage in the market. According to hotel industry research, the impact of the epidemic has accelerated or promoted some trends in the accommodation industry, among which the most noteworthy is the three aspects of the chain trend: first, the scale of the hotel chain keeps expanding, second, the acceleration of the chain rate; and the trend of an intelligent number of hotel chains [10].

5. Conclusion

Through the analysis of Hyatt's financial data and accounting disclosure information, Hyatt has a reasonable method and detailed calculations because using complex models took a variety of factors into consideration like interest rate, inflation, and future cash flow to mention only a few in the revenue recognition, goodwill, and other important accounting indicators. In addition, Hyatt has a better comprehensive financial condition in profitability, liquidity, solvency, and efficiency compared with its peers. For example, Hyatt quickly recover its net income from negative 222 million in 2021 to 455 million in 2022. As for the solvency ratio, Hyatt keeps a lower total debt ratio than its peers indicating its sustainable operation ability. The efficiency ratio also holds a great performance with stable asset and inventory turnover revealing Hyatt has a strong ability to use limited assets to produce the highest revenue possible. It is undeniable that Hyatt has recovered well from the pandemic this year, but the challenges for the hotel industry are still significant and many conditions remain unpredictable. Take short-term ridership and customer preference degree, for example, these indexes are highly unpredictable. The company still should take some measures such as reducing the cost, making efficient use of favorable policies for the industry, and constantly cultivating customers' loyalty to strengthen the awareness of risk management in order to maintain competitiveness in the market. So, it remains to be seen what the future will look like.

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