

Kennedy-Wilson Holdings, Inc.
Form 10-Q
May 06, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 001-33824

Kennedy-Wilson Holdings, Inc.
(Exact name of Registrant as specified in its charter)

Delaware 26-0508760
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
151 S El Camino Drive
Beverly Hills, CA 90212
(Address of principal executive offices)
Registrant's telephone number, including area code:
(310) 887-6400

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

(See definition of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one):

Large Accelerated Filer Accelerated Filer o

Edgar Filing: Kennedy-Wilson Holdings, Inc. - Form 10-Q

Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of common stock outstanding as of May 6, 2016 was 113,689,389.

Table of Contents

Index

PART I FINANCIAL INFORMATION

| | | |
|---------|--|-----------|
| Item 1. | <u>Financial Statements (Unaudited)</u> | <u>1</u> |
| | <u>Consolidated Balance Sheets</u> | <u>1</u> |
| | <u>Consolidated Statements of Operations</u> | <u>2</u> |
| | <u>Consolidated Statements of Comprehensive (Loss) Income</u> | <u>3</u> |
| | <u>Consolidated Statement of Equity</u> | <u>4</u> |
| | <u>Consolidated Statements of Cash Flows</u> | <u>5</u> |
| | <u>Notes to Consolidated Financial Statements</u> | <u>7</u> |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>35</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>56</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>58</u> |

PART II OTHER INFORMATION 59

| | | |
|----------|--|-----------|
| Item 1. | <u>Legal Proceedings</u> | <u>59</u> |
| Item 1A. | <u>Risk Factors</u> | <u>59</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>59</u> |
| Item 3. | <u>Defaults Upon Senior Securities</u> | <u>59</u> |
| Item 4. | <u>Mine Safety Disclosure</u> | <u>59</u> |
| Item 5. | <u>Other Information</u> | <u>59</u> |
| Item 6. | <u>Exhibits</u> | <u>59</u> |

SIGNATURE 61

Table of Contents

FORWARD-LOOKING STATEMENTS

Statements made by us in this report and in other reports and statements released by us that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are necessarily estimates reflecting the judgment of our senior management based on our current estimates, expectations, forecasts and projections and include comments that express our current opinions about trends and factors that may impact future operating results. Disclosures that use words such as “believe,” “may,” “anticipate,” “estimate,” “intend,” “could,” “plan,” “expect,” “project” or the negative of these, as well as similar expressions, are intended to identify forward-looking statements. These statements are not guarantees of future performance, rely on a number of assumptions concerning future events, many of which are outside of our control, and involve known and unknown risks and uncertainties that could cause our actual results, performance or achievement, or industry results to differ materially from any future results, performance or achievements, expressed or implied by such forward-looking statements. These risks and uncertainties may include the risks and uncertainties described elsewhere in this report and other filings with the Securities and Exchange Commission (the “SEC”), including the Item 1A. “Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2015. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in the context of the various disclosures made by us about our businesses including, without limitation, the risk factors discussed in our filings with the SEC. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, changes in assumptions, or otherwise.

Non-GAAP Measures and Certain Definitions

“KWH,” “Kennedy Wilson,” the “Company,” “we,” “our,” or “us” refer to Kennedy-Wilson Holdings, Inc. and its wholly-owned subsidiaries.

“KWE” refers to Kennedy Wilson Europe Real Estate plc, a London Stock Exchange listed company that we externally manage through a wholly-owned subsidiary. In accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), the results of KWE are consolidated in our financial statements due to our control of KWE. We own an approximate 20.3% equity interest in KWE as of March 31, 2016 and throughout this report, we refer to our pro-rata ownership stake in investments made and held directly by KWE.

“KW Group” refers to Kennedy Wilson and its consolidated subsidiaries that we consolidate in our financial statements under U.S. GAAP, including KWE.

“Acquisition-related gains” consist of non-cash gains recognized by the Company or its consolidated subsidiaries upon a GAAP required fair value measurement due to a business combination. These gains are typically recognized when a loan is converted into consolidated real estate owned and the fair value of the underlying real estate at the time of conversion exceeds the basis in the previously held loan. These gains also arise when there is a change of control of an investment. The gain amount is based upon the fair value of the Company’s or its consolidated subsidiaries’ equity in the investment in excess of the carrying amount of the equity directly preceding the change of control.

“Adjusted EBITDA” represents Consolidated EBITDA, as defined below, adjusted to exclude, share-based compensation expense for the Company and EBITDA attributable to noncontrolling interests. Our management uses Adjusted EBITDA to analyze our business because it adjusts Consolidated EBITDA for items we believe do not accurately reflect the nature of our business going forward or that relate to non-cash compensation expense or noncontrolling interests. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Adjusted EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations. However, Consolidated EBITDA and Adjusted EBITDA are not recognized measurements under GAAP and when analyzing our operating performance, readers should use Consolidated EBITDA and Adjusted EBITDA in addition to, and not as an alternative for, net income as determined in accordance with GAAP. Because not all companies use identical calculations, our presentation of Consolidated EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, Consolidated EBITDA and Adjusted EBITDA are not intended to be a measure of free cash flow for our management’s discretionary use, as it does not remove all non-cash items (such as acquisition-related gains) or

consider certain cash requirements such as tax and debt service payments. The amounts shown for Consolidated EBITDA and Adjusted EBITDA also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges and are used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments.

"Adjusted fees" refers to Kennedy Wilson's investment management, property services and research fees adjusted to include fees eliminated in consolidation and Kennedy Wilson's share of fees in unconsolidated service businesses.

"Adjusted Net Asset Value" is calculated by KWE as net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallize in a long-term investment property business model such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

Table of Contents

"Adjusted Net Income" represents Consolidated Adjusted Net Income as defined below, adjusted to exclude net income attributable to noncontrolling interests, before depreciation and amortization.

"Assets under Management" ("AUM") generally refers to the properties and other assets with respect to which we provide (or participate in) oversight, investment management services and other advice, and which generally consist of real estate properties or loans, and investments in joint ventures. Our AUM is principally intended to reflect the extent of our presence in the real estate market, not the basis for determining our management fees. Our AUM consists of the total estimated fair value of the real estate properties and other real estate related assets either owned by third parties, wholly owned by us or held by joint ventures and other entities in which our sponsored funds or investment vehicles and client accounts have invested. Committed (but unfunded) capital from investors in our sponsored funds is not included in our AUM. The estimated value of development properties is included at estimated completion cost.

"Cap rate" represents the net operating income of an investment of the year preceding its acquisition or disposition divided, as applicable, by the purchase or sale price. Cap rates set forth in this presentation only includes data from income-producing properties. Cap rates represent historical performance and are not a guarantee of future NOI. Properties for which a cap rate is provided may not continue to perform at that cap rate.

"Consolidated Adjusted Net Income" represents net income before depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments and share-based compensation expense.

"Consolidated EBITDA" represents net income before interest expense, our share of interest expense included in income from investments in unconsolidated investments, depreciation and amortization, our share of depreciation and amortization included in income from unconsolidated investments, loss on early extinguishment of corporate debt and income taxes. We do not adjust Consolidated EBITDA for gains or losses on the extinguishment of mortgage debt as we are in the business of purchasing discounted notes secured by real estate and, in connection with these note purchases, we may resolve these loans through discounted payoffs with the borrowers. Consolidated EBITDA is not a recognized term under GAAP, and does not purport to be an alternative to net earnings as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, Consolidated EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not remove all non-cash items (such as acquisition-related gains) or consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of Consolidated EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Our management believes Consolidated EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of Consolidated EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions. Such items may vary for different companies for reasons unrelated to overall operating performance. Additionally, we believe Consolidated EBITDA is useful to investors to assist them in getting a more accurate picture of our results from operations.

"Consolidated investment account" refers to the sum of Kennedy Wilson's equity in: cash held by consolidated investments, consolidated real estate and acquired in-place leases, net hedge assets, unconsolidated investments, consolidated loans gross of accumulated depreciation and amortization, and net other assets.

"Equity multiple" is calculated by dividing the amount of total distributions received by KW from an investment (including any gains, return of equity invested by KW and promoted interests) by the amount of total contributions invested by KW in such investment. This metric does not take into account management fees, organizational fees, or other similar expenses, all of which in the aggregate may be substantial and lower the overall return to KW. Equity multiples represent historical performance and are not a guarantee of the future performance of investments.

"Equity partners" refers to non-wholly-owned subsidiaries that we consolidate in our financial statements under U.S. GAAP, including KWE, and third-party equity providers.

"Investment account" refers to the consolidated investment account presented after noncontrolling interest on invested assets gross of accumulated depreciation and amortization.

"Net operating income" or "NOI" is a non-GAAP measure representing the income produced by a property calculated by deducting operating expenses from operating revenues.

"Operating associates" generally refer to individuals that are employed by or affiliated with third-party consultants, contractors, property managers or other service providers that we manage and oversee on a day-to-day basis with respect to our investments and services businesses.

"Property operating income" is a non-GAAP measure calculated by deducting Kennedy Wilson's share of rental and hotel operating expenses from rental and hotel revenues. Please refer to the Pro-Rata Statement of Operations in the Supplemental Financial Information for more information.

Table of Contents

“Same property” refers to properties in which Kennedy Wilson has an ownership interest during the entire span of both periods being compared. The same property information presented throughout this report is shown on a cash basis and excludes non-recurring expenses. This analysis excludes properties that are either under development or undergoing lease up as part of our asset management strategy.

Table of ContentsPART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Kennedy-Wilson Holdings, Inc.
Consolidated Balance Sheets
(Unaudited)

| | March 31, 2016 | December 31, 2015 |
|---|-------------------|----------------------|
| (Dollars in millions, except share and per share amounts) | | |
| Assets | | |
| Cash and cash equivalents | \$ 180.9 | \$ 182.6 |
| Cash held by consolidated investments | 717.2 | 549.0 |
| Accounts receivable (including \$27.0 and \$22.9 of related party) | 68.3 | 54.7 |
| Real estate and acquired in place lease values, net of accumulated depreciation and amortization | 5,826.1 | 5,797.5 |
| Loan purchases and originations (including \$41.2 and \$40.9 of related party) | 165.1 | 299.7 |
| Unconsolidated investments (including \$234.8 and \$223.8 at fair value) | 456.7 | 444.9 |
| Other assets | 244.1 | 267.2 |
| Total assets ⁽¹⁾ | \$7,658.4 | \$ 7,595.6 |
| Liabilities and equity | | |
| Liabilities | | |
| Accounts payable | \$ 15.9 | \$ 22.2 |
| Accrued expenses and other liabilities | 408.0 | 392.0 |
| Investment debt | 3,729.4 | 3,627.5 |
| Senior notes payable | 689.2 | 688.8 |
| Line of credit | 50.0 | — |
| Total liabilities ⁽¹⁾ | 4,892.5 | 4,730.5 |
| Equity | | |
| Cumulative preferred stock, \$0.0001 par value per share: 1,000,000 shares authorized \$1,000 per share liquidation preference; 32,550 shares of Series B preferred stock issued and outstanding as of March 31, 2016 and December 31, 2015 | — | — |
| Common stock, 113,951,389 and 114,533,581 shares issued and outstanding as of March 31, 2016 and December 31, 2015 | — | — |
| Additional paid-in capital | 1,229.4 | 1,225.7 |
| Accumulated deficit | (68.4) | (44.2) |
| Accumulated other comprehensive loss | (46.8) | (47.7) |
| Total Kennedy-Wilson Holdings, Inc. shareholders' equity | 1,114.2 | 1,133.8 |
| Noncontrolling interests | 1,651.7 | 1,731.3 |
| Total equity | 2,765.9 | 2,865.1 |
| Total liabilities and equity | \$7,658.4 | \$ 7,595.6 |

⁽¹⁾ The assets and liabilities as of March 31, 2016 include \$5,004.0 million (including cash held by consolidated investments of \$676.6 million and real estate and acquired in place lease values, net of accumulated depreciation and

amortization of \$3,964.0 million) and \$2,780.2 million (including investment debt of \$2,503.3), respectively from consolidated variable interest entities ("VIEs"). The assets and liabilities as of December 31, 2015 include \$4,973.9 million (including cash held by consolidated investments of \$507.8 million and real estate and acquired in place lease values, net of accumulated depreciation and amortization of \$3,955.8 million) and \$2,655.1 million (including investment debt of \$2,414.0 million), respectively from VIEs. These assets can only be used to settle obligations of the consolidated VIEs and the liabilities do not have recourse to the Company.

See accompanying notes to consolidated financial statements.

Table of Contents

Kennedy-Wilson Holdings, Inc.
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended March 31, | 2016 | 2015 |
|---|---------------------------------------|------|------|
| (Dollars in millions, except share and per share amounts) | | | |
| Revenue | | | |
| Rental | \$ | | |