

SaT Academy 2022 Hospitality

Prepared By

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EY Hospitality

12 September 2022



Building a better
working world

EY - Strategy & Transactions

EY Global

People



250,000

Countries



150

Real Estate & Hospitality

People



12,000

EY Advisory S.p.A., a client-serving member firm of Ernst & Young Global Limited operating in Italy, will render the services included in this proposal.

In Italy, EY has a dedicated Hospitality team composed of professionals specialized in the hospitality, tourism and leisure industry. Their senior-level professional experience allows them to have an all-round approach towards the market with a global vision and strategy of the sector.

EY's Hotel & Hospitality Focus

- ▶ Specialized advisor for more than 20 years
- ▶ Strong presence in Italy with offices in Milan and Rome
- ▶ One-stop-shop for the entire life cycle of a hotel property from the project idea to a successful divestment
- ▶ Combining hotel and hotel real estate expertise
- ▶ Long-established and essential part of EY's real estate practice
- ▶ Close collaboration across all services lines within the EY Group (Tax, Audit, Advisory, Legal)
- ▶ Strong international network of hotel & hospitality experts

Why EY Hospitality?



- ▶ Local presence, specific market expertise and global reach



- ▶ Well rehearsed processes and goal-orientated approach



- ▶ Sound expertise across all hotel segments and key markets



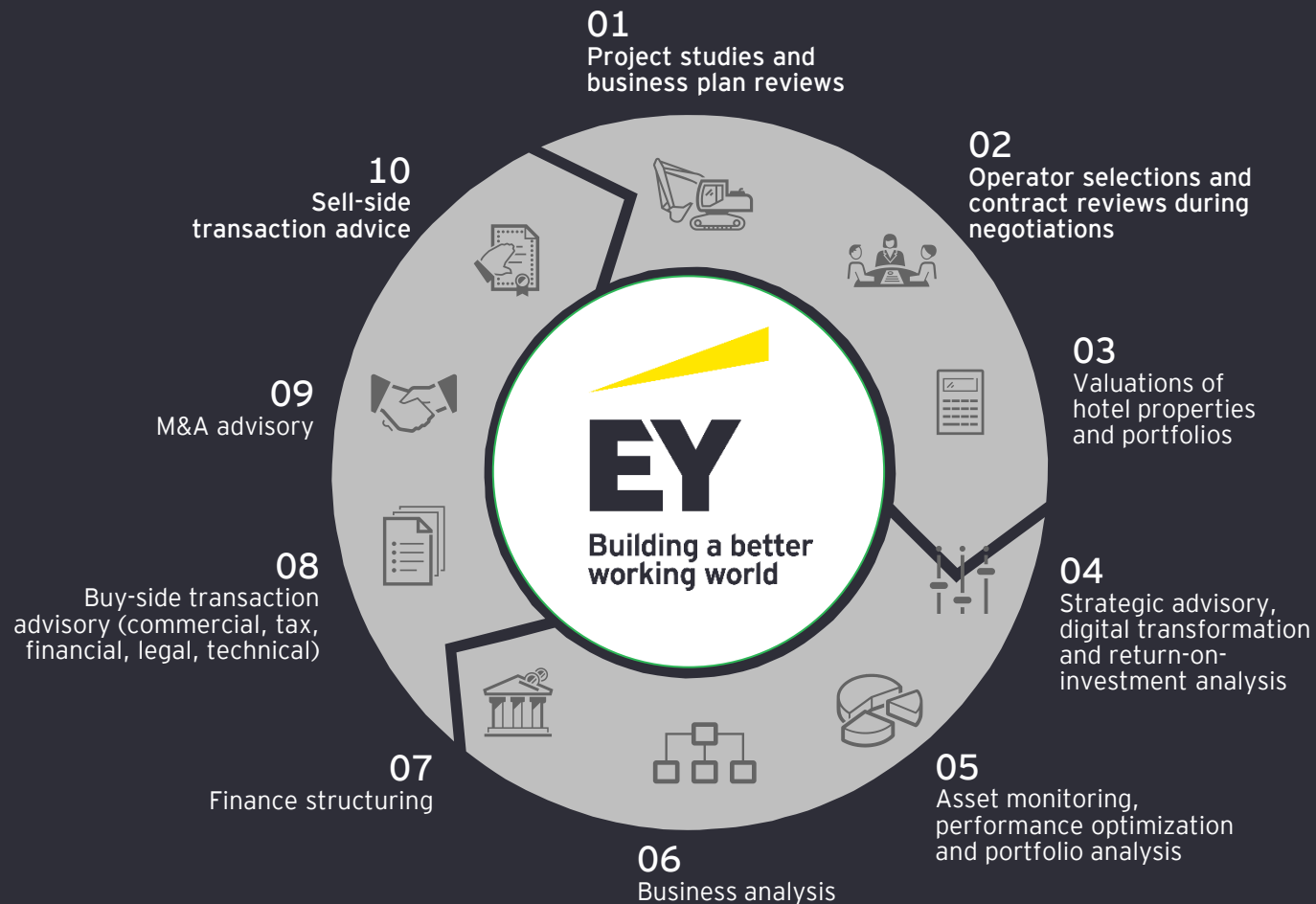
- ▶ Swift access to a wide network, both internally and externally

Our 360° Approach



EY - Strategy & Transactions

How we help our clients in every phase of their hotel project and how we think one step further...

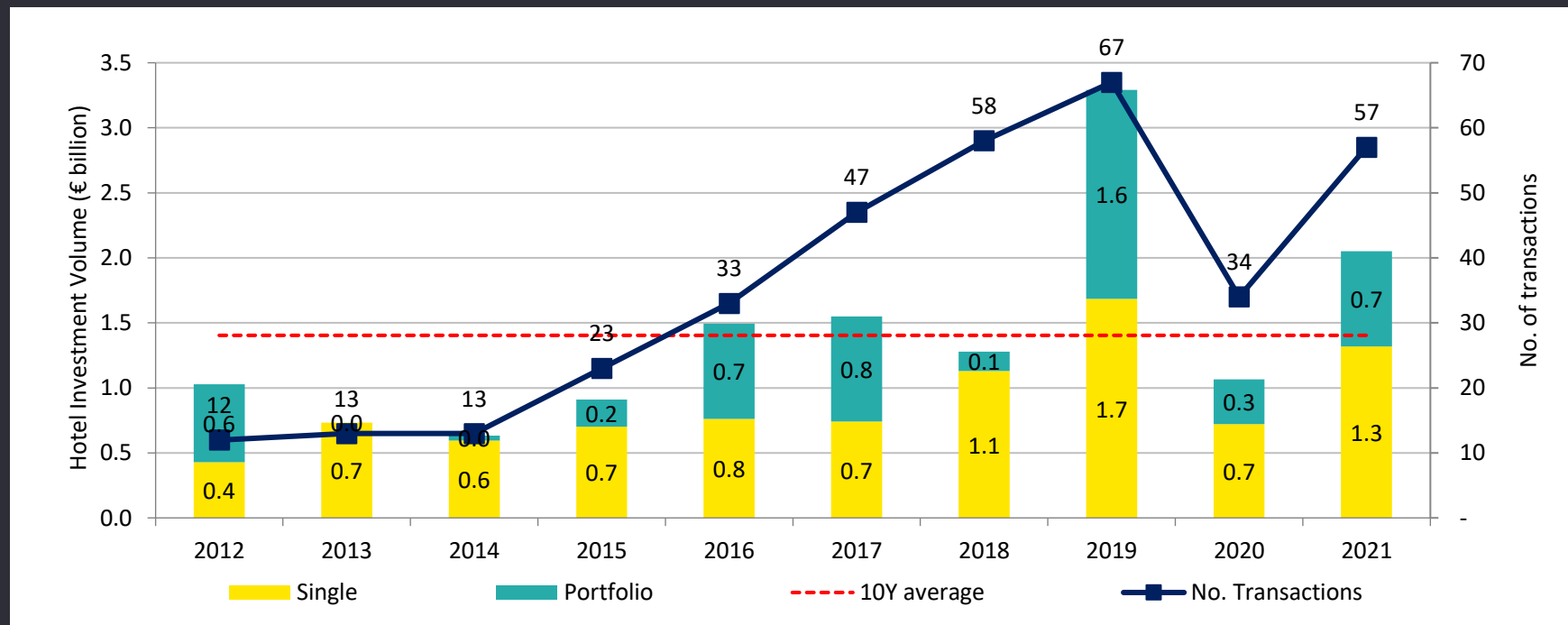




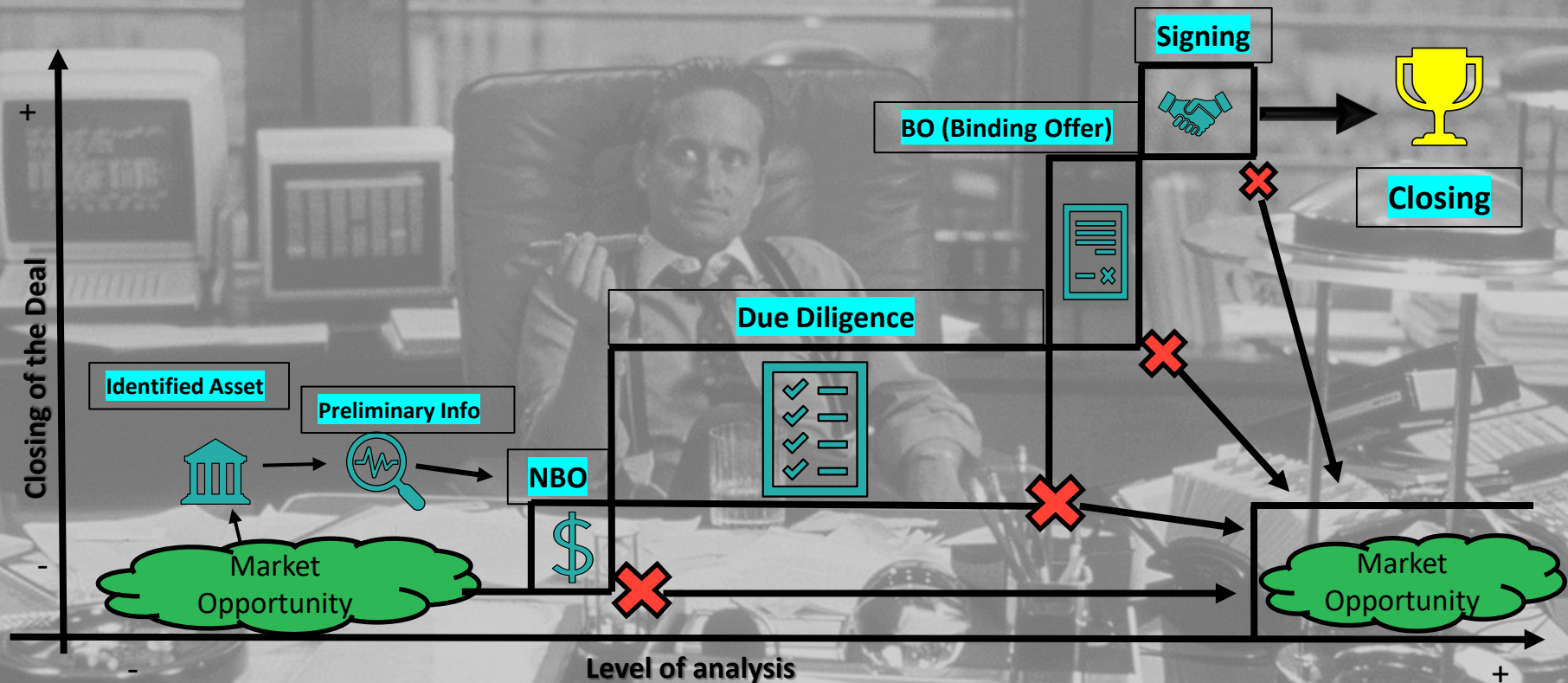
1 The Hotel Investment

Hotel Investment Market in Italy

- ▶ Transactions volume 2021: € 2 bn, +92% vs. 2020 (+33% compared to 10-year average)
- ▶ Top deals 2021: Bluserena, Mangia's Resorts, Grand Hotel Minerva Roma, Bauer Giudecca and Baglioni Luna Venice
- ▶ 41% of hotels sold 2017-21 in top 4 primary destinations (Venice, Rome, Milan, Florence)
- ▶ 36% of hotels sold 2017-21 in resort destinations
- ▶ 50% hotels sold 2017-21 in vacant possession with "value-add" approach, 22% sold for rent






Hotel Investment flow



Return on investment goals

- ▶ Investment plan depends on the investor's structure and strategic objectives
- ▶ Different investors have different investment goals, access to equity and risk capital

| Description | Core | Value Add | Operators |
|----------------------------------|--|---|---|
| Type of investor | Institutional / HNWI | Private Equity | End users |
| Strategy of investment | Diversification | Short run Value Add | Business logic |
| Remuneration | NOI | IRR | Cash Flow |
| Investment timeline | Medium-Long Run | Medium - Short Run | Short Run |
| Comparable financial instruments | Bonds | Stock Trading | Risk Capital - Equity |
| |  |  |  |

The same product can have an attractiveness and a pricing significantly different for each Investor

Identifying an asset in line with your strategy

In maintaining and developing the real estate portfolio we will have to take into account the characteristics of the opportunities.

In summary, the flowchart represents the investment logic of the main types of investors:



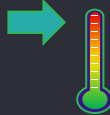


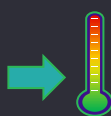
| Building status | Complete Asset repositioning | Upgrading | Fully operating hotel |
|-----------------|------------------------------|-------------------|-----------------------|
| Investment | Value Add | Operator | Core |
| Type of Risk | Development Risk | Construction Risk | Operative Risk |
| | Construction Risk | | |
| | Operative Risk | Operative Risk | |

As highlighted, each of the sub-asset classes has a different intensity of risk.

The estimate of the expected return by investors in the Hotel Industry is linked to specific considerations on the hotels being analyzed (development, construction, operational phase).

Preliminary valuation of the investment: pricing and NBO

Each phase of the hotel development process is associated to level of risk: high in the preparatory phases / administrative process and decreasing as construction completion is achieved

| | | Impact on Yields |
|-------------------|---|--|
| Location Risk | The risk associated with the location is one of the main elements analyzed in the context of identifying the return required by investors. It is possible to identify high, medium or low risks, based on the required / expected yield (return). |  |
| Development Risk | This type of risk occurs in the initial phase of the project. These consist in the possibility that there are important delays in the timing to obtaining the necessary authorizations to build, in the conception and definition of the hotel layout in line with the hypothesized product concept on which the profitability was estimated, and the confirmation of the value of the necessary investment. To these components must be added the necessary definition of the operating model, that depends on the selection of a hotel manager and / or a franchisor / brand for the product. |  |
| Construction Risk | Time from the beginning of the construction to completion of the hotel is characterized by the risks associated with the development and the construction work. In this case, the value of the investment connected to the hotel now built and ready for operation is equal to the discounting of the forecasted cash flows |  |
| Operative Risk | After the opening and commercial start-up phase, with the confirmation of the forecast flows, it is possible to estimate the value of the operating Hotel on the assumption that the property is a fully equipped operational entity with reference to its commercial potential. |  |

Knowledge Check and Q&A





2 Management Models






















































Brand requirements

- ▶ A hotel BRAND is an identity that merges a group of hotels in the eyes of guests. Identity is generated by marketing in the form of drawings, symbols and words.
- ▶ With their brand identity, hotels can differentiate themselves from the competition.
- ▶ Furthermore, in addition to the identity represented by the guest, hotel brands often have certain quality standards and details that each hotel which is part of the brand must meet.
- ▶ Brands define the market positioning of a hotel and help creating guest expectations (price, type and quality of service, ...)

| | | | | | | |
|----------------|---|---|--|---|---|---|
| LUSSO |  |  |  |  |  |  |
| PREMIUM |  |  |  |  |  |  |
| UPPER-UPSCALE |  |  |  |  |  |  |
| UPSCALE |  |  |  |  |  |  |
| MIDSCALE |  |  |  |  |  |  |
| ECONOMY BUDGET |  |  |  |  |  |  |

Brand requirements

- ▶ The major global hotel chains have different brands within their offer to cover all market segments (multi-brand chains).
- ▶ Other companies are mono-brand and cover only one segment, or they may have generalist brands that are positioned between two or more contiguous segments.
- ▶ The nature of the brand and the level of control required for the adherence of the trademark to the brand identity (understood as the set of promises, guest experience and value for money), also guide the management model adopted for each brand (hard brand - soft brand).

| | FRANCHISING | GESTIONE DIRETTA / MANAGEMENT |
|------------------------|--|---|
| HARD BRAND |               |                  |
| SOFT BRAND / LIFESTYLE |             |            |

Management Models

- ▶ The management model depends on several variables
- ▶ From the point of view of the "manager" of the hotel, the main variables that guide the management model are:
 - ▶ Ownership of the hotel asset
 - ▶ Ownership of the hotel company (business risk)
 - ▶ Ownership of know-how (understood as a set of brands, management skills, etc.)
 - ▶ Ownership of distribution systems (access to commercial / distribution platforms, etc)
 - ▶ When all these elements refer to the same person, the model of direct management is configured.
- ▶ On the other hand, when one or more of these variables refer to a third party, the possible management models can be traced back to the following 4 main models:

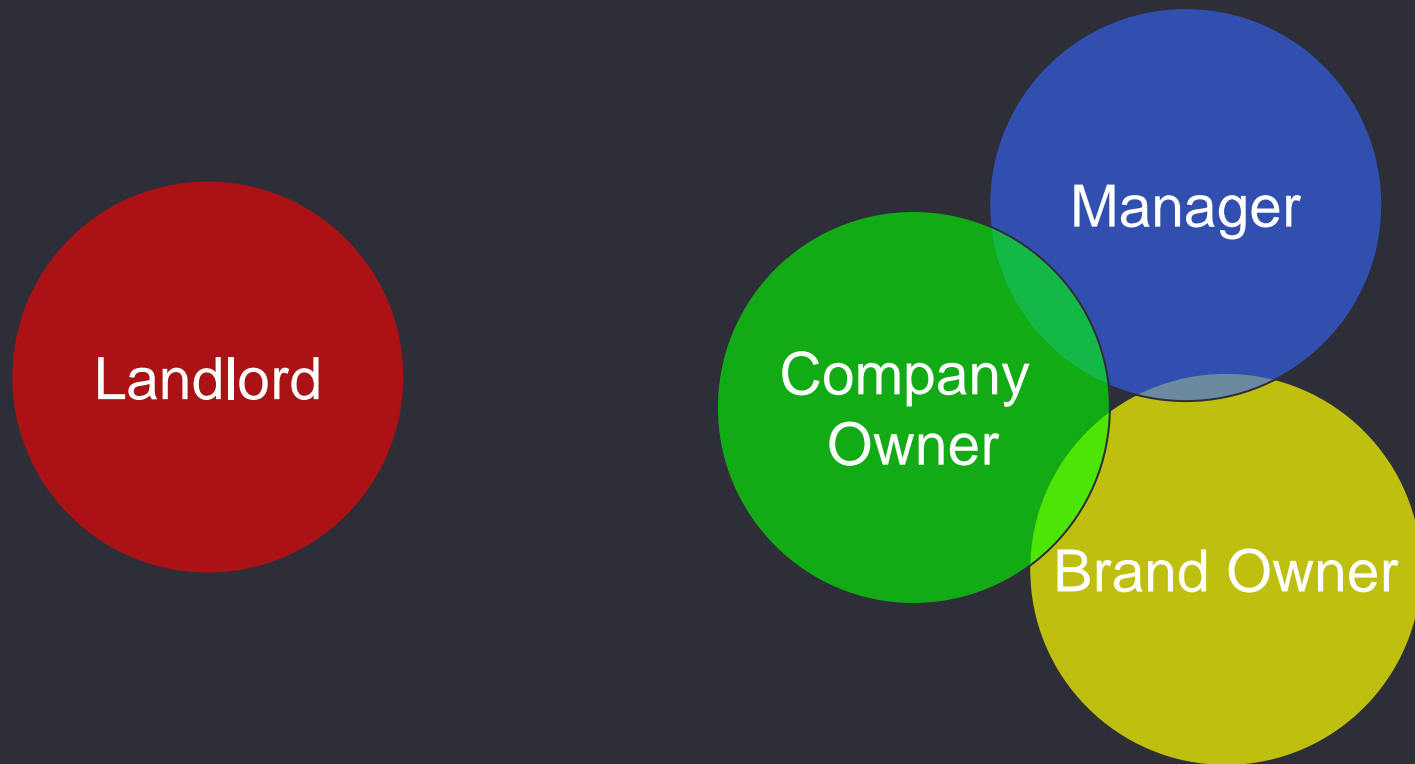
| | |
|----------------------|--------------------------------------|
| PROPERTY RENT | BUSINESS LEASE |
| FRANCHISING | HOTEL MANAGEMENT CONTRACT |

Management Models

REAL ESTATE LEASE

Landlord

Tenant



Management Models

PROPERTY LEASE



PROS

- ▶ Business risk transferred entirely to the tenant. Part of the risk remains if the rent vary depending on the hotel performance
- ▶ Preferred contract scheme of most Italian operators. The brand can be implemented through a franchise agreement signed by the tenant with the international operator ("sandwich")
- ▶ Bank guarantees (surety) to guarantee the fixed rent
- ▶ Possibility of investment contributions by the tenant (key money)

CONS



- ▶ No owner control over hotel operations. Limited control over the maintenance of the asset
- ▶ The hotel business (including licenses) is owned by the tenant. Issue in the case of a management change
- ▶ Few operators able to issue a bank guarantee to guarantee the rent

Management Models

BUSINESS LEASE

Landlord

Tenant

Hotel
Owner

Company
Owner

Manager

Management Models

BUSINESS LEASE



PROS

- ▶ Type of contract that allows greater autonomy of the parties regarding the duration, pre-emption, etc.
- ▶ Normally no goodwill is due upon termination
- ▶ Market of Italian operators particularly interested in acquiring management through leasing contracts for the business unit
- ▶ Possibility of investment contributions by the lessee (key money)

CONS



- ▶ Operators tend to offer almost exclusively variable lease with a limited minimum guaranteed amount.
- ▶ Upon termination all contracts will go back to the owning company
- ▶ Extraordinary maintenance and replacements to be paid by the Owner with the risk of periodic large investments

Management Models

FRANCHISING

Franchisee

Franchisor

Hotel
Owner

Company
Owner

Manager

Brand and
know-how
owner

Management Models

FRANCHISING



PROS

- ▶ Immediate access to international distribution channels and commercial visibility
- ▶ Access to loyalty program (international loyal customers)
- ▶ Access to the technical know-how of the chain for the product
- ▶ Access to the chain's purchasing centers
- ▶ Full management control of the Property
- ▶ Ability to select a single partner for your facilities
- ▶ The location is attractive for potential franchisors

CONS

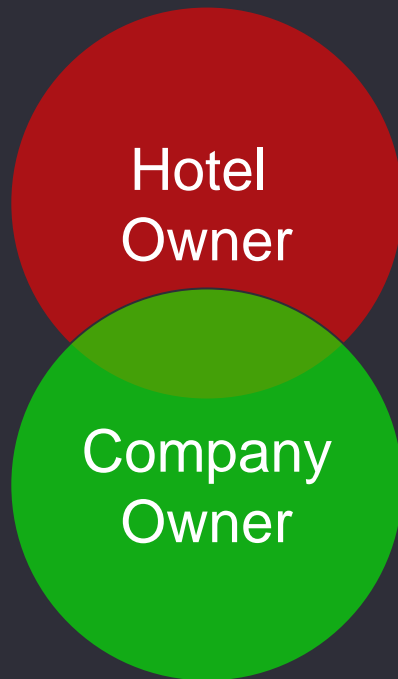


- ▶ Management risk entirely borne by the Property
- ▶ Possibility of constraints on product standards (FF&E adapted to the brand etc.)
- ▶ Not all international brands use Franchising, they prefer to keep control over the quality level
- ▶ The right of territorial exclusivity could expel potential franchisors already affiliated in the area of interest
- ▶ Risk of penalization in commercial terms compared to other hotels of the same chain managed for rent / HMA or in ownership

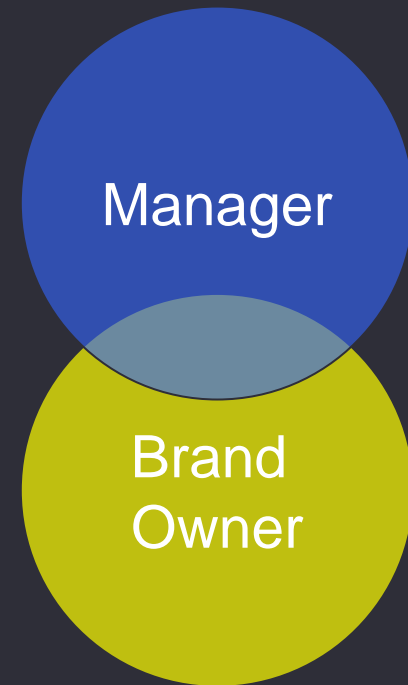
Management Models

HOTEL MANAGEMENT CONTRACT

Owner



Manager



Management Models

HOTEL MANAGEMENT CONTRACT



PROS

- ▶ International brands active on the market for this type of contract
- ▶ Development support, access to know-how (Technical service agreement)
- ▶ Product quality maintenance over the years
- ▶ Possibility of structuring the fees in relation to the services provided by the manager
- ▶ Alignment of interest between Property (revenues, G.O.P.) and operator (base, incentive fee).

CONS



- ▶ Operational risk in the face of limited control over direct management
- ▶ Low ability to influence operational management (limited at the time of budget negotiation)
- ▶ Possible right of "claw back" (additional bonus) of the Manager in case of achievement in subsequent years of a G.O.P. exceeding the guaranteed one
- ▶ Extraordinary maintenance and replacements decided by the manager but at the owner's expense
- ▶ FF&E Reserve negotiated (% turnover): reserve for the replacement of FF&E

Knowledge Check and Q&A



A man in a light blue shirt and dark tie sits on a patterned armchair in a hotel room, looking at a tablet. A black suitcase is on the floor next to him. The room has large windows with sheer curtains and a dark wooden door in the background. The scene is reflected on the polished floor.

Hotel Valuation

Valuation

GLOBAL VALUATION STANDARD

- RICS Red Book - Valuation Global Standards 2017
- International Valuation Standards (IVS) - 2017
- ABI - Guidelines for the valuation of properties as collateral for credit exposures - 14 December 2015

MARKET VALUE

"This is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". (RICS VPS 4.2.7)

MARKET RENT

"This is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. Whenever market rent is provided the 'appropriate lease terms' that it reflects should also be stated". (RICS VPS 4.2.6)

Minimum Contents of the valuation report

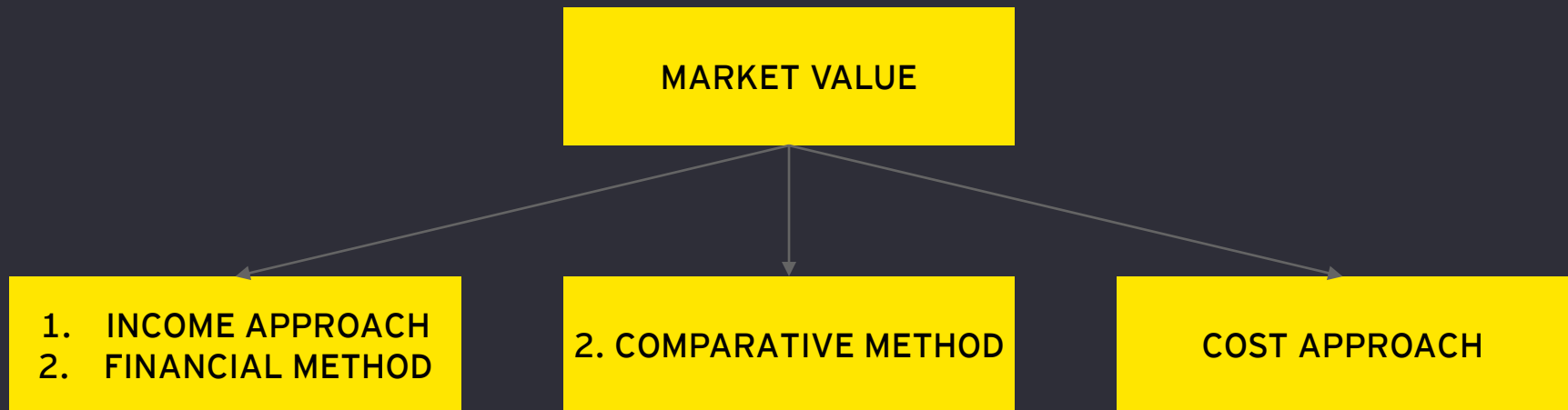
IVS 103 Reporting standard outlines a number of requirements for complying with International Valuation Standards. **The requirements are as follows:**

- a) Identification and status of the valuer
- b) Identification of the client and any other intended users
- c) Purpose of the valuation
- d) Identification of the asset(s) or liability(ies) valued
- e) Basis(es) of value adopted
- f) Valuation date
- g) Extent of investigation
- h) Nature and source(s) of the information relied upon
- i) Assumptions and special assumptions
- j) Restrictions on use, distribution and publication of the report
- k) Confirmation that the valuation has been undertaken in accordance with the IVS
- l) Valuation approach and reasoning
- m) Amount of the valuation or valuations
- n) Date of the valuation report

Valuation methods

All valuation approaches used to develop and support a Market Value indication are based on market observations and are based on the economic principles of fair value.

The main valuation methods for determining the Market Value can be grouped into:



Valuation methods

The income approach is based on the presumed income that a property is able to generate over its residual useful life or over a specified period of time:

The simple capitalization method estimates the value by capitalizing the income achieved in a single period examined.

The Discounted Cash Flow (DCF) method measures the value of an asset based on the present value of the net income generated by the property. At the end of the period considered, it is assumed that the property is resold at a value obtained by capitalizing the income of the last year at a market rate.

Simple Capitalization or DCF?

- The Simple Capitalization method is generally used:
 - ▶ In the case of "income" hotels with a simple (fixed) fee structure
 - ▶ In connection with the DCF (as verification) for hotels in vacant possession
- The Discounted Cash Flow (DCF) method is generally used:
 - ▶ In the case of Hotel in Vacant Possession
 - ▶ In the case of "income" hotels with a sophisticated rent structure (i.e. variable, stepped rent, etc.)

Valuation methods

The Comparative Method is based on the comparison between the asset analyzed and other identical or similar assets, subject to transaction and the related market data:

- **The market multiples method** compares the hotel with reference data (eg rents, EBITDA, etc.). The data obtained is adjusted and applied to the corresponding operational data of the asset in order to evaluate and determine its value
- **The comparable transaction method** uses valuation data based on historical data relating to transactions carried out in the sector to which the asset to be valued belongs, or in similar sectors. The data thus obtained are adjusted and applied to the corresponding operational data of the asset to be evaluated to determine its value

Luna Baglioni acquired by RB



| Year | Name | City | Rooms | EBITDA X |
|------|--------------------------------------|-------------|-------|----------|
| 2020 | Dedica Anthology | Various | 488 | 21.3 |
| 2019 | Belmond | Various | 461 | 25.6 |
| 2019 | Capri Palace | Capri | 69 | 22.3 |
| 2018 | Hotel LaGare Milano MGallery | Milano | 141 | 18.1 |
| 2018 | Castello del Nero - Chianti | Val di Pesa | 50 | 29.4 |
| 2018 | Hotel LaGare Venezia Murano MGallery | Venezia | 118 | 24.2 |

Valuation methods

The cost approach is based on the economic substitution principle, whereby a buyer would pay no more for an asset than it would cost to obtain one of equal utility, either by buying it or by building it.

To quantify the price that the buyer would offer for the asset, it is necessary to calculate adjustments to the replacement cost "as new" to take into account the depreciation and the differences between the asset in question and the modern equivalent (ie age, residual economic life , management costs, efficiency, functionality)

An informed hotel investor generally bases their buying decision on economic factors, such as expected cash flows and return on investment

Since the cost method does not reflect these economic considerations and requires numerous subjective estimates (i.e. depreciation), this approach is given a marginal weight in the valuation process.



Approach to hotel valuation

The valuation of a hotel property as a fully equipped operating entity assumes that the lease or sale of the property includes:

- ▶ Lands and buildings
- ▶ Plants, furniture, furnishings and equipment
- ▶ Transfer / obtaining / renewal of licenses, authorizations and permits necessary for the hotel business

It usually excludes:

- ▶ Warehouse inventory (e.g. raw materials, uniforms) and small equipment (plates, glasses, terminals, etc.)

The valuation is **generally** carried out considering the Property "as is", ie in the state in which it is at the date of the valuation.



Forecast Economic Projections

One of the key elements of hotel valuation is the determination of the EBITDA that can be generated by the hotel

This is a challenging phase and requires skills and experience from the Appraiser.

Estimating Cash Flows (Free-Cash-Flow) requires the performance of the following activities:

- ▶ Site inspection
- ▶ Historical performance analysis
- ▶ Market and competitive environment analysis
- ▶ Interview with management
- ▶ Performance benchmarking
- ▶ Estimation of any CAPEX (extraordinary expenses)
- ▶ Other research and analysis



Site Inspection

The site inspection provides one of the key opportunities for the Appraiser to assess the commercial potential of the hotel.

Numerous elements that come to light during the inspection can have an impact on the perception of the property's value.

These include:

- ▶ Features of location and accessibility
- ▶ Characteristics of the property
- ▶ Environmental factors (e.g. presence of harmful / polluting substances)

Other activities / checks to be carried out during the inspection include:

- ▶ Verification of existing facilities
- ▶ Verification of the maintenance status / need for Capex
- ▶ Analysis of the economic implications of the layout
- ▶ Search for potential improvements (treasure hunting opportunities)
- ▶ Review of alternative uses

Analysis of historical performances

- ▶ The analysis of the economic accounts and historical performances is a good way to start analyzing the hotel and its peculiarities
- ▶ However, it is important to remember that this analysis only shows the performances of a particular operator registered in the past and may not reflect the position of a "reasonably efficient operator".
- ▶ For this phase a basic knowledge of accounting / financial and USALI is required
- ▶ Sometimes some operators (especially small independent ones) do not adopt the USALI system and it will be necessary to reclassify the data of the G.C.C., in order to have a database that can be analyzed and compared with market standards.



Market analysis

- It is essential to understand the main drivers of the local market to make an accurate estimate of EBITDA or other significant profit level (GOP - EBITDAR - EBIT)
- An analysis of the Demand and Supply of the market addressed is usually performed

Hotel Demand

- The touristic demand in the Municipality of Siracusa recorded a negative trend in both arrivals (-1.4% CAGR) and bednights (-3.1% CAGR) in the period 2015-2019 and also decreased in the average length of stay (-1.7% CAGR) which stood at 3.0 days in 2019.
- International demand represented 43% of total bednights therefore is to consider an important demand generator for the municipality, and has increased in the last 5 years at a rate of 4.6% (CAGR) in terms of bednights.
- The domestic demand also recorded a negative trend in both arrivals (-1.6% CAGR) and bednights (-1.9% CAGR).
- It is important to underline that the demand trend was volatile and fluctuated significantly in the 5 years taken into consideration. Between 2018 and 2019 was registered an increase of 11.9% in arrivals and 8.4% in overall bednights.



| Hotel demand - Municipality of Siracusa | | | | | | | |
|---|---------------|------|---------|------|--------|-------|--------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | CAGR* |
| Domestic | Arrivals | 133 | 125 | 128 | 119 | 125 | (1.6%) |
| | Bednights | 420 | 388 | 373 | 304 | 389 | (1.9%) |
| International | Arrivals | 113 | 84 | 90 | 89 | 107 | (1.2%) |
| | Bednights | 359 | 258 | 291 | 270 | 298 | (4.6%) |
| Total | Arrivals | 246 | 209 | 224 | 207 | 232 | (1.4%) |
| | Bednights | 779 | 644 | 664 | 634 | 687 | (3.1%) |
| Y-o-Y % Change | Arrivals | - | (15.0%) | 7.1% | (7.4%) | 11.9% | |
| | Bednights | - | (17.3%) | 3.2% | (4.6%) | 8.4% | |
| Average Length of stay | Domestic | 3.2 | 3.1 | 2.9 | 3.1 | 3.1 | (0.3%) |
| | International | 3.2 | 3.1 | 3.0 | 3.0 | 2.8 | (3.4%) |
| Total | | 3.2 | 3.1 | 3.0 | 3.1 | 3.0 | (1.7%) |

Municipality of Siracusa

2 Origin market analysis
3 Competitive environment
4 Key Takeaways

Hotel Supply

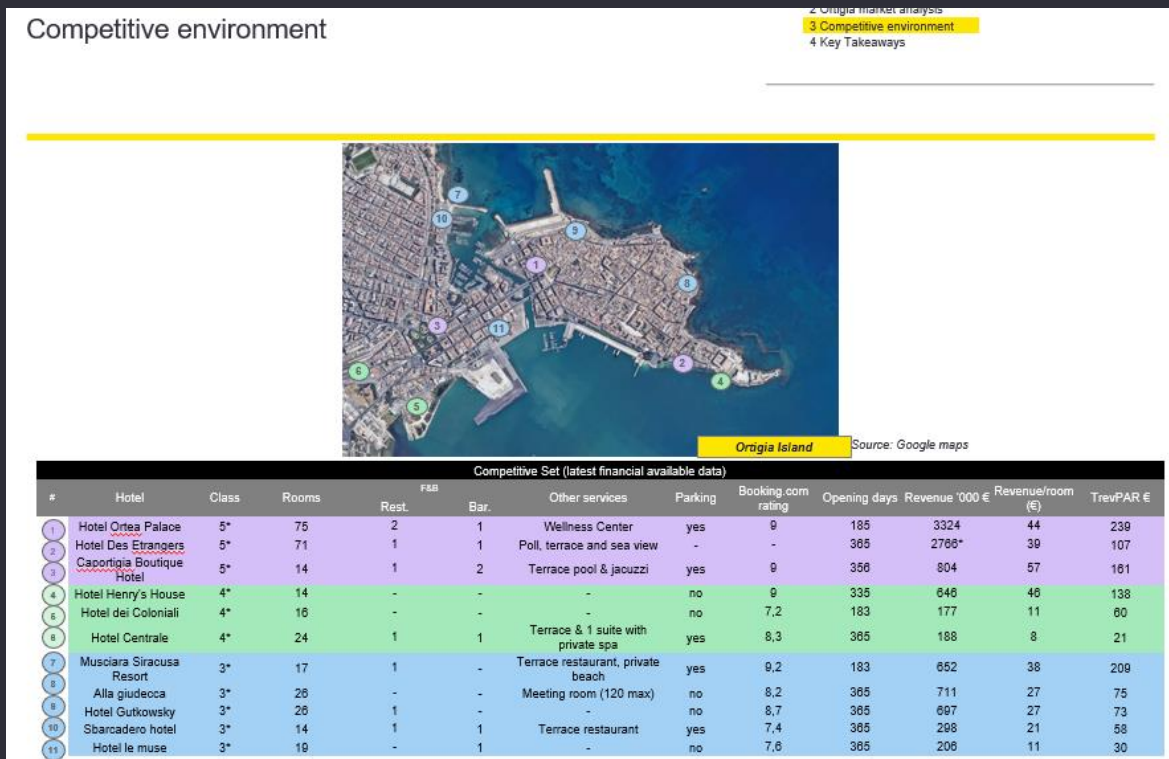
- According with the most recent ISTAT data available, in 2019 the hotel supply in the municipality of Siracusa counts 79 Hotel, for a total of 3,127 rooms.
- The hotel supply is positioned at a medium-high level, 69% of the rooms available belongs to 3 and 4-star hotels (respectively 52% and 17% of the total number of rooms). These properties have respectively an average size of 58 and 22 rooms, fairly stable during the period between 2015 and 2019. Between 2015-2019 emerges a positive trend in terms of hotel supply, with an increase in the total number of rooms shifting from 2,510 to 3,127 (5.6% CAGR), on the other hand the number of properties rise from 75 to 79 (1.3% CAGR).
- The growth is mostly driven by the 5-star and luxury and the 4-star segment which rise respectively from 4 hotels in 2015 to 8 in 2019 (18.9% CAGR) and from 336 rooms to 650 (17.9% CAGR). The 4-star segment also recorded a significant increase in room number shifting from 1,269 in 2015 to 1,628 in 2019 (6.4% CAGR) which has the greatest impact in the overall number of room, even if in terms of hotels remains stable over the period with 25 properties.
- The overall growth of the hotel supply is mostly relatable to the increase in 4-star room from 2015 to 2016, afterwards remained mostly stable with minor fluctuations. The municipality of Siracusa represents mainly a very attractive seaside destination which polarize the tourism with peaks during the summer months. On the other hand the MICE segment is not able to balance the influx of tourism during the colder months.

| Hotel supply - Municipality of Siracusa | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|--------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | CAGR* |
| 5-star & luxury | Hotel | 4 | 4 | 7 | 8 | 8 | 18.9% |
| | Room | 336 | 411 | 575 | 650 | 650 | 17.9% |
| 4-star | Hotel | 28 | 28 | 28 | 28 | 28 | - |
| | Room | 1,269 | 1,672 | 1,520 | 1,628 | 1,628 | 6.4% |
| 3-star | Hotel | 36 | 36 | 35 | 25 | 25 | (1.0%) |
| | Room | 609 | 535 | 527 | 527 | 527 | (3.6%) |
| 2 & 1-star | Hotel | 2 | 2 | 2 | 2 | 2 | - |
| | Room | 21 | 21 | 21 | 21 | 21 | - |
| Serviced apartments | Hotel | 15 | 15 | 16 | 16 | 16 | 1.6% |
| | Room | 275 | 279 | 302 | 301 | 301 | 2.2% |
| Total | Hotel | 75 | 75 | 76 | 79 | 79 | 1.3% |
| | Room | 2,510 | 2,918 | 2,945 | 3,127 | 3,127 | 5.6% |
| Change % (YoY) | Hotel | - | 0.0% | 1.3% | 3.9% | 0.0% | |
| | Room | - | 16.3% | 0.9% | 6.2% | 0.0% | |



Competitive analysis

- ▶ The Appraiser must also analyze the performance of the competitive set through benchmarking analysis (occupancy rate, average room revenue)
- ▶ The definition of the reference market is fundamental for all the analyzes necessary to understand the commercial potential of the hotel



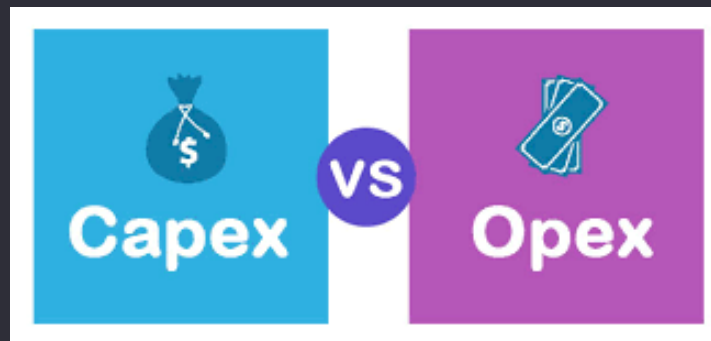
Management's interview

- ▶ An Appraiser should always try to meet the hotel manager and / or top management figures (e.g. CFO)
- ▶ The purpose of the interview is to verify historical performance and share future management and market prospects
- ▶ A potential approach is to discuss the economic aspects according to the EC scheme, scrolling through the various performance themes, customer segments, revenues, direct costs, general costs, profitability, etc.
- ▶ Sometimes it is not possible to interview the director or the CFO for various reasons (timing, unavailability, ownership / manager relationships, etc.). In this case, further investigations on the local market will be required
- ▶ At the end of the inspection, having analyzed the income statements and interviewed the management, the Appraiser should be able to determine the actual profitability of the hotel (EBITDA).



CAPEX Analysis

- ▶ It is possible that the property has already planned extraordinary maintenance / restructuring interventions, or that the conditions of the hotel are such as to reasonably assume that a potential investor considers the need to carry out such interventions
- ▶ There are 2 types of CapEx:
 - **Defensive Capex:** these are used to maintain normal operations and are generally funded with the reserve for FF&E
 - **Upgrading Capex:** they serve to increase the commercial potential (upside) and often require additional capital
- ▶ In the assessment, unless specific forecasts, only the first type of Capex is considered, deducting its cost from sustainable EBITDA



Other researches and analysis:

Further research and analysis that may impact Valuation are:

- ▶ Title of ownership: origin, boundaries of the property, constraints, easement
- ▶ Employment status: direct management, lease / rent (obligations of the lessor and tenant, break options, ownership of the FF&E, etc.), franchising (duration, costs, transferability of the contract, etc.)
- ▶ Property Taxes: IMU, TASI
- ▶ City planning situation: city/area planning compliance, risk of expropriation
- ▶ Licenses and authorizations: completeness and transferability



DISCOUNTED CASH FLOW (DCF) 1/2

The estimate of the Market Value with the DCF method involves the following steps:

- ▶ The prospective cash flows (EBITDA / gross rent), net of CAPEX, property taxes and other irrecoverable expenses, are discounted back at an adequate discount rate
- ▶ Furthermore, the sale (reversion) of the property is assumed at the end of the holding period, through the direct capitalization of the terminal cash flow (exit value) and discounting the result at present values.

The resulting value is also verified with reference to the annual returns received by a potential buyer

| | A | B | C | D | E | F | G | H | I | J | K |
|-----|---|---|---|---|--------------------|--------------------|------------------|----------------|------------------|------------------|------------------|
| 1 | © Corporate Finance Institute. All rights reserved. | | | | Startup year | | | | | | Terminal year |
| 2 | | | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| 3 | Balance Sheet Check | | | | OK | OK | OK | OK | OK | OK | OK |
| 277 | | | | | | | | | | | |
| 278 | Free Cash Flow | | | | | | | | | | |
| 279 | Earning Before Tax | | | | (2,573,040) | (1,340,320) | 57,140 | 1,233,760 | 2,782,080 | 4,941,600 | 5,738,560 |
| 280 | Interest | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 281 | EBIT | | | | (2,573,040) | (1,340,320) | 57,140 | 1,233,760 | 2,782,080 | 4,941,600 | 5,738,560 |
| 282 | Less Taxes | | | | 0 | 0 | 0 | 0 | 39,905 | 1,235,400 | 1,434,640 |
| 283 | Less Capex | | | | 500,000 | 100,000 | 100,000 | 550,000 | 250,000 | 1,100,000 | 600,000 |
| 284 | Plus Depreciation | | | | 100,000 | 120,000 | 140,000 | 250,000 | 300,000 | 420,000 | 520,000 |
| 285 | Less Changes in Working Capital | | | | 72,314 | 289,534 | 434,654 | 732,196 | 573,939 | 806,624 | 567,112 |
| 286 | Unlevered Free Cash Flow | | | | (3,045,354) | (1,609,854) | (337,514) | 201,564 | 2,218,236 | 2,219,576 | 3,656,808 |
| 287 | | | | | | | | | | | |

DISCOUNTED CASH FLOW (DCF) 2/2

- ▶ Determining the correct combination of capitalization and discount rates is critical to obtaining a reliable value.
- ▶ It is therefore essential to refer to the market. However, there are a number of problems in obtaining such market evidence due to the often confidential nature of transactions and their lack of transparency.
- ▶ The determination of the capitalization rate depends on numerous factors according to the ownership situation of the hotel:
 - ▶ **Vacant possession:** particular reference should be made to business dynamics, ownership conditions, possible upside or constraints, general supply and demand trends, to assess the sustainability and reliability of economic projections (EBITDA)
 - ▶ **Income (lease / rental or management):** in addition to the previous factors, it is necessary to consider the terms and conditions of the contract, residual duration, renewals, break options, rent sustainability, effectiveness and reliability of the tenant, guarantees, maintenance obligations, etc.

Knowledge Check and Q&A





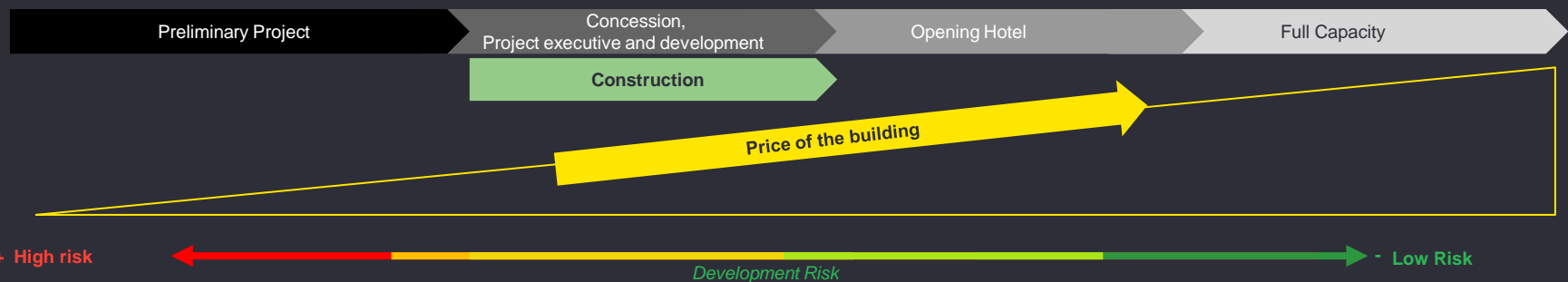
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Case Study 1

Case Study 1 - The pricing of a Hotel development

The value of a hotel investment is a value-growing, but presents some critical issues that must be faced. Each phase of the enhancement process is associated with a level of risk: high in the preparatory phases/ administrative process and decreasing as implementation approaches completion

| Milestone | Operating Model Definition | Construction | Hotel Opening | Stabilization of activity |
|-------------|--|--|--------------------------|---------------------------|
| Time | Investment decision | Year -2 Year -1 Year 0 | Year 1 Year 2 Year 3 | Year 4 |
| Activity | Preliminary project | Execution Project | Operating Hotel | Operating Hotel |
| Risk | Development Risk | Construction Risk | «Rump up» Risk | Operational Risk |
| Hotel Value | Value-CAPEX- Development risk (40% CAPEX) | Value-CAPEX- Development risk (20% CAPEX) | 16X EBITDA | 20X EBITDA |

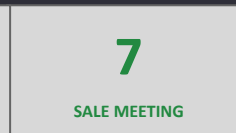
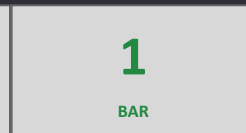
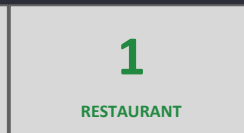
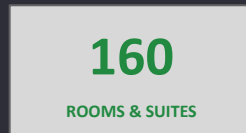
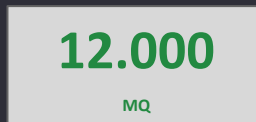
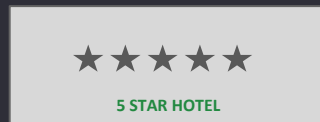




Case Study 2

Case Study 2 – Professional disposal of hotel

We have so far analyzed the strategic investor who wants to acquire a hotel property, we analyze in this case study, the divestment phase:



Need

The owner wanted to sell the property to initiate a generational shift. The property had to keep a low profile on the market to safeguard employee relationships at its other 5 hotels.

Work Done

Competitive process: sale involved only professional investors who have analyzed the hotel, have presented credible offers. The highest bidder negotiated 7 months before closing the deal

The hotel was sold to a private equity group that bought the company through a specialized hotel fund

Case Study 2 - Selling Process

| Preliminary Phase | Pre-Marketing | Marketing | Final Selection/Closing |
|--|--|--|---|
| <ul style="list-style-type: none"> ▶ Documentation ▶ Potential Repositioning analysis ▶ Technical Due Diligence ▶ Legal Due Diligence ▶ Tax Due Diligence | <ul style="list-style-type: none"> ▶ Data and info to share ▶ Offering Memorandum: <ul style="list-style-type: none"> ▶ Vending process illustration ▶ Opportunity illustration ▶ Technical analysis of the building ▶ Reclassification mng accounts ▶ Repositioning scenario, business plan | <p>Opportunity Marketing:</p> <ul style="list-style-type: none"> ▶ Documentation ▶ Contact/ meetings with potential investors ▶ Virtual Dataroom Management ▶ Site visits ▶ Receiving Offering ▶ «Process Letter» with deadline: non binding offers required | <p>Offers selections:</p> <ul style="list-style-type: none"> ▶ Selection of short list investors with non bidding offers ▶ Selection of chosen investors ▶ Direct negotiation, exclusivity and closing |
| <p>Profesionals involved:</p> <ul style="list-style-type: none"> ▶ Commercial, ▶ Technical, ▶ Legal, ▶ Fiscal Advisor | <ul style="list-style-type: none"> ▶ Commercial, ▶ Legal, ▶ Accountingl Advisor | <ul style="list-style-type: none"> ▶ Commercial Advisor ▶ Dataroom entitled ▶ Investors, Investors' Commercial Advisor | <ul style="list-style-type: none"> ▶ Commercial, Legal, Technical, Fiscal Advisor ▶ Dataroom entitled ▶ Investors, Investors' Commercial, fiscal, Legal, technical Advisor ▶ Banks and financial intermediary for financing |

Case Study 2 - Exit Phase

The exit phase is a crucial moment that can determine the success or failure of the entire life cycle of the asset.

The quality and services offered by the consultants in this phase can be "winning" or "deal breakers".

A thorough understanding of all aspects of an M&A transaction, is critical to successfully managing the transaction.



Join the Hospitality Industry!

THANKS



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