CATÓLICA LISBON
BUSINESS & ECONOMICS

Equity Valuation: NH Hoteles Group

Abstract

The goal of this dissertation is to provide a fundamental insight into equity valuation on the example of NH Hoteles. Initially we analyze all the available theory, choose the most relevant to our case and summarize it. Then we take a closer look at the industry and the firm to have fundamental backgrounds for our model. Ultimately, we apply all the concepts and knowledge about the industry and the company to find the value for NH Hoteles. We also compare our findings with the ones of BPI and explain why there are differences in values.

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Acknowledgements

Time has come.

This work represents not only the end of my Masters but the end of a cycle. Six memorable years went by and although it seems like yesterday, a lot has changed since I first walked into this door.

A new cycle is now about to start and I just hope it to be as remarkable as these past years have been.

To Católica - to all the Professors and staff - I can only be grateful. But not just for that.
Católica gave me life buddies and for that I feel blessed: To Ascensor, Zé Fran, Tigueiro, Edu, Almeida, Paez; to my east side friends Maksym and Pavlov; to Elváceo and African Ivens.

To all my childhood friends – B Boy, Vascão, Cbr, KL, Albuqs, Djey, G Mesq, B Bernas, Sost, LP and to all of those I might be forgetting.

Finally, to my Parents and family, to whom I owe everything.

Thank you.

Equity Research Note

Despite the rally, fundamentals suggest an upside…
NH Hoteles share price gained ca. 30% since it reached its lows in February 2015. A positive earnings surprise helped the stock move up. Nevertheless, after updating our model we believe fundamentals imply a further **upside of 25.0%** in the coming months and we see a **BUY recommendation**. Focus on improving value proposition and continuing divestments of low performing assets should positively contribute to the performance.

Repositioning will help grow ADR and margins…
The company continues to move forward with its repositioning plan, which already allowed them to significantly increase prices for the rooms. The like for like **ADR rose ca.11% YoY in 2015** and we believe the company is well positioned to further increase prices. As you can see from the figure on the right hand side the number of upper upscale hotels should increase by ca. 8% to 23% from 2015 to 2018.

Operational improvements and deleveraging should help reduce borrowing costs and risk…
The debt burden has been reducing and so did the cost of debt. **It moved from 6.7% in 2013 to 6.0% in 2015** and, considering their focus on the operational improvements and tailwinds from the loose monetary policy in the Euro Zone we see further room for decrease.

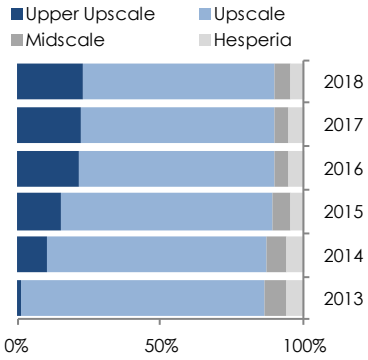
Below we present the key operational assumptions for NH Hoteles.

Valuation summary

	EUR mn
EV SOTP	**2.605,60**
Net Debt	741,0
Mkt. Cap.	**1.864,60**
#of Shares (mn)	350,27
Price Per Share	**5,32**
Current Price*	4,26
Upside/Downside	**25,0%**
Recommendation	**BUY**

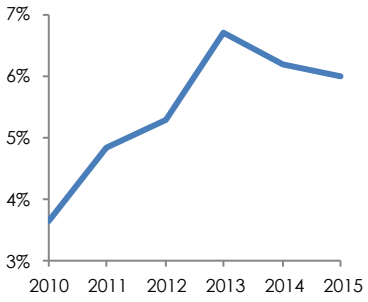
*as of Mar 1 2016

NH Hoteles repositioning plan



Source: Company Data

NH Hoteles interest expense



Source: Company Data

Forecasts of the key metrics for NH Hoteles (EUR mn and % where stated)

Metric	2015	2016E	2017E	2018E	2019E	2020E
Total Revenue	1453,3	1527,0	1575,5	1615,9	1658,2	1689,0
EBITDA	204,8	262,9	298,5	311,6	325,3	336,7
EBIT	110,0	173,1	205,0	215,6	229,7	241,4
NI	29,2	76,7	105,1	111,5	121,8	130,3
FCFF	-16,1	72,1	98,8	160,1	169,1	174,7
GPM	34,5%	35,0%	35,5%	35,9%	36,0%	36,0%
EBITDA Margin	14,1%	17,2%	18,9%	19,3%	19,6%	19,9%
RoE	1,7%	4,1%	5,6%	6,0%	6,5%	7,0%

Source: Company Data, Our Estimates

Index

Introduction 6

1. Valuation Methodologies 7

1.1. Intrinsic Value - Discounted Cash Flow (DCF) Valuation 7

1.1.1. Valuing the Equity 8

1.1.2. Valuing the Firm 9

1.1.3. Value Drivers for DCF Approach 10

1.2. Relative Valuation 15

1.2.1. Peer Group 15

1.2.2. Multiples 15

1.3 Techniques used for NH Hoteles 16

2. Company Overview 18

2.1. NH History 18

2.2. NH Hoteles in a snapshot 18

2.3. Markets 18

2.4. Hotel's operating model 20

2.5. Strategic Plan 20

2.6. Brand architecture 21

3. Industry Overview 21

3.1. Global overview 22

3.2. B.U. Spain 22

3.3. B.U. Italy 23

3.4. B.U. Benelux 25

3.5. B.U. Central Europe 26

3.6. B.U. Latin America 27

4. Valuation of NH Hotel Group 31

4.1. Before we start 31

4.2. Understanding key drivers and business model 32

4.3. Discounted Cash Flow Valuation 33

4.3.1. Forecasts 33

4.3.2. Weighted Average Cost of Capital 39

4.3.3. DCF Analysis **41**
4.3.4. Sensitivity Analysis **42**
4.4. Relative Valuation **43**
4.4.1. Peer Group **43**
4.4.2. Multiples **44**
5. Comparison with the BPI report **46**
Conclusions **48**
References **49**
APPENDIX **52**
Appendix 1 – Additional Literature Review **52**
Appendix 2 – Additional information on company overview **59**
Appendix 3 – Additional information on industry overview **62**
1) External risk factors **62**
Appendix 4 – Additional information on the DCF **63**

Introduction

Nowadays life is deeply connected to transactions. Those transactions usually result in transfer of wealth making valuation an essential part of modern society. It does not matter whether we would like to buy a company, a place to live or are simply looking to make minor purchases – there is always a need to estimate a value of any deal we intend to make. The aim of this dissertation is to explore the concept of valuation in a business context, or, to be more precise, to find the value of one particular company – NH Hoteles.

In the first chapter of this paper we present the key valuation concepts that have been developed so far. It is important to look into the concepts before we start as valuing a company without understanding the theory is like sailing without a map. We will go through the current literature and choose the one we will be using for our valuation.

The second chapter describes the company and the industry where it operates. We analyze the key trends in the Hotel industry around the world to then use this information in our assumptions. Moreover, we look closely into the company and its history. Valuation is a concept deeply connected with looking into the future and without knowing well the past it becomes very complicated.

The third part of this work describes the valuation process itself. We present the key assumptions and utilize the techniques discussed in chapter one to reach our goal – find a value for NH Hoteles. We use several valuation methods – a DCF analysis and a relative valuation. Additionally, we conduct a sensitivity analysis on the market value of NH Hoteles and tested the impact of both our growth rate and cost of capital to quantify the reliability of the value we have estimated.

The last part of the dissertation compares the value we have reached with the one estimated by research analysts from BPI. We discuss the fundamental assumptions behind both models and explain the difference in value achieved.

1. Valuation Methodologies

As most of the theoretical concepts, valuation has been evolving with old concepts being questioned and, sometimes, new concepts appearing. Looking into the literature, we cannot compare the theoretical base one could access in the twentieth century with what we have nowadays.

In this section we will go through the most relevant valuation methodologies and group these methodologies in three different categories:

- **Intrinsic Valuation -** the current value of an asset derives from its ability to generate value in the future. The Discounted Cash Flow approach is the most commonly used;
- **Relative or multiples valuation -** the value of an asset is derived from the price of comparable assets, in what concerns common variables like Sales, Earnings, Book Value;
- **Contingent claim calculation[1] -** this approach uses option-pricing models to measure the value of assets and incorporates the probabilities of the occurrence of certain events.

1.1. Intrinsic Value - Discounted Cash Flow (DCF) Valuation

We can look at the DCF valuation as the heart of all the valuations. Even when we do not use it directly it is always of great importance, as all its implicit concepts are essential to better understand and undergo the valuation processes. Paraphrasing Damodoran[2] "Anyone who understands it well will be able to analyze and use the other approaches".

According to this model, the value of an asset is the present value of the expected future cash-flows it generates, discounted back at a rate that reflects the riskiness of these cash flows[3].

The general formula can be given by:

(1)

$$V = \sum_{t=1}^{n} \frac{CF_t}{(1+K)^t} + \frac{TV_n}{(1+K)^n}$$

Where,

CF_t = cash flow generated by the company in the period t.

TV_n = Terminal value of the company in the year n.

K = appropriate discount rate for the cash flows' risk.

[1] Can be found in Appendix 1
[2] Damodaran (2002)
[3] Damodoran (2007)

1.1.1. Valuing the Equity

1.1.1.1. Free Cash-Flow to Equity (FCFE)

Depending on the company, the analyst may rather prefer FCFE over FCFF. The difference between the two lies within the value one is trying to reach. In the Free Cash-Flow to Equity approach we come up with a value for the equity. Note, however, that we can always get from the former (firm value) to the latter (equity value) by netting out the value of all payments to debtholders (interest and principal repayments net of new debt issues). This happens as debt has a claim on the cash of the company that must be satisfied before any money can be paid to stockholders. Done right, the value of equity should be the same whether it is valued directly (by discounting cash flows to equity at the cost of equity) or indirectly (by valuing the firm and subtracting out the value of all non-equity claims).

According to Damodoran[4], in order to estimate the amount to be paid to stockholders, we have to start by the net income and take out any reinvestment needs. First, we subtract all the cash outflows - we take off all the capital expenditures including acquisitions and we add back the depreciations and amortizations (as they are non-cash charges). Second, we detract all the increases in the working capital (current assets minus current liabilities), but only the non-cash working capital (accounts receivable, accounts payable, inventory, prepaid expenses, etc.) as we are interested only in the cash-flow effects. Lastly, we also need to consider the effect of changes in the levels of debt.

The general formula for the FCFE is presented below:

(2)

$$\begin{aligned}\text{FCFE} = \text{Net Income} - \text{CapEx} + \text{D\&A} - \Delta\ \text{NonCash Working Capital} \\ +(\text{New Debt Issue} - \text{Debt Repayment}) \\ -(\text{Preferred Dividends} + \text{New Preferred Stock Issue})\end{aligned}$$

Because the FCFE is the cash flow remaining for equity holders after all the other claims are satisfied, to get the present value of the firm's equity we have to discount it by company's cost of equity (K_e).

The general formula for the value of the equity becomes:

(3)

[4] Damodaran (2012)

$$E = \sum_{t=1}^{n} \frac{FCFE_t}{(1+K_e)^t} + \frac{TV_n}{(1+K_e)^n}$$

Where,

$FCFE_t$ = Free cash flow Equity generated by the company in the period t.

TV_n = Terminal value of the company in the year n.

K_e = Company cost of Equity

1.1.1.2. Dividend Discount Model (DDM) and Comparison

In Appendix 1 we refer to the Dividend Discount Model and we make a comparison between FCFE and DDM.

1.1.2. Valuing the Firm

1.1.2.1. Free Cash-Flows to the Firm (FCFF)

We use FCFF to reach to the value of a leveraged firm. According to Stowe et al.[5] "Free cash flow to the firm is the cash flow available to the company's suppliers of capital (shareholders and debtholders) after all operating expenses (including taxes) have been paid and necessary investments (e.g., inventory) in working capital and fixed capital (e.g., equipment) have been made".

The formula can be written as following:

(5)

$$FCFF = After\ Tax\ Operating\ Income - Reinvestments$$
$$= EBIT(1 - Tax\ Rate) - (CapEx - Dep + \Delta\ NonCash\ Working\ Capital)$$

Another way of computing FCFF would be going from FCFE to FCFF. In order to do it, we would add to the cash flows to equity (either FCFE or dividends), the cash flow to lenders (principal payments, interest expenses and new debt issues) and the cash flows to preferred stockholders (usually preferred dividends):

(6)

$$FCFF = FCFE + InterestExpenses(1 - Tax\ Rate) + Principal\ Repayments$$
$$-New\ Debt\ Issues + Preferred\ Dividends$$

The general formula for the value of the firm becomes:

(7)

$$EV = \sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \frac{TV_n}{(1+WACC)^n}$$

[5] Stowe et al. (2007)

Where,

$FCFF_t$ = Free cash flow to the Firm generated by the company in the period t.

TV_n = Terminal value of the company in the year n.

WACC = Weighted Average Cost of Capital

1.1.2.2. Adjusted Present Value Method (APV) and Comparison

In Appendix 1 further analysis is done for the Adjusted Present Value Method and a comparison between the two methods is draw.

1.1.3. Value Drivers for DCF Approach

Discount rates play an important role in the DCF approach. Depending on the company's background, we can use several different discount rates.

1.1.3.1. WACC

Stowe et al [6] states that the most common way to estimate the required rate of return, for a company's suppliers of capital, is to calculate WACC – a weighted average of the required rates of return. As the name suggests it is the average of firm's cost of equity (Ke) and cost of debt (Kd) weighted by the capital structure (D/E).

(8)

$$WACC = \frac{D}{D+E} * K_d * (1-T) + \frac{E}{D+E} * K_e$$

By using the after tax cost of debt ((1-T)*Kd) we are including the tax benefits of holding debt.

To compute WACC we need then to have three inputs: 1) cost of debt 2) cost of equity and 3) company's capital structure. We will only focus on the first two but we believe it is important to highlight once more the fundamental WACC's assumption: the capital structure to remain constant over the future period.

1.1.3.2. Cost of Debt

Frykman and Tolleryd[7] defined it as the interest the company has to pay at the moment it is funded by lenders. Thus, we should consider the current market cost of debt and not the historical cost.

Koller et al.[8] uses a very straightforward way to estimate this value through the yield to maturity of company's long-term, option-free bonds:

[6] Stowe et al. (2007)

[7] Frykman and Tolleryd (2003)

(9)

$$Price = \frac{Coupon}{(1+YTM)} + \frac{Coupon}{(1+YTM)^2} + \cdots + \frac{Face + Coupon}{(1+YTM)^N}$$

Furthermore, when this condition does not apply, we have other alternatives:

- Use credit ratings. Under this approach we add to the risk free rate the correspondent credit spread associated with the credit risk of the company analyzed.
- Use interest rates for the latest relevant loan as a proxy for the cost of debt or a synthetic rating based upon company's financial ratios.

1.1.3.3. Cost of Equity

The cost of equity, or the required return on shareholders' equity, is the cost at which a company can attract additional money from external investors. In other words, it is the return investors require to invest the company[9].

Analysts can choose from several methods to estimate the required return on equity: capital asset pricing model (CAPM); arbitrage pricing theory model (APT); Fama-French three-factor model; or even a build-up method such as the bond yield plus risk premium approach.

In our analysis we will just cover the CAPM method as it is the most common and best-known approach.

It can be applied to any type of securities and assets and the general formula is given by:

(10)

$$E(R_i) = R_f + \beta_i * \left[E(R_m) - R_f\right]$$

Where,

$E(R_i)$=expected return of security i

R_f= Risk-free rate

β_i=Beta of the security

$E(R_m)$= expected return of the market

In the CAPM, the risk-free and the market risk premium will be similar for all the companies, and only Betas will change across companies. The Beta of a company/security is basically the risk that the company/security adds to a market portfolio.

So under CAPM assumption the cost of equity K_e is given by:

(11)

$$K_e = R_f + B_L * \left[E(R_m) - R_f\right]$$

[8] Koller et al. (2010)

[9] Frykman and Tolleryd (2003)

Furthermore, the costs of the unlevered equity can also be given by CAPM. Here, the only difference is that we will be using the Unlevered Beta (B_U) oppose to the Levered Beta (B_L) we used before.

(12)

$$K_u = R_f + B_U * [E(R_m) - R_f]$$

Beta

The Beta measures how much the value of a company's stock moves with the value of the market. It represents the systematic risk, or the risk that cannot be eliminated by diversification.

To estimate Beta we first need to estimate a raw beta using a regression and then improved it by using industry comparables. The raw beta is computed according with the following regression:

(13)

$$\beta_e = \frac{Covariance\ of\ Stock\ with\ Market\ Portfolio}{Variance\ of\ the\ Market\ Portfolio} = \frac{Cov(R_e, R_M)}{Var(R_M)}$$

Where,

$R_e = Company\ stock\ returns$

$R_M = Stock\ Market\ returns$

According to Koller et al.[10] when regressing the raw beta, the measurement period should include at least 60 observations of monthly data (daily or weekly will not truly reflect stock's risk) and the market portfolio considered should be well-diversified and value-weighted, such as the MSCI World Index, for instance. Afterwards, we should then improve the estimate by using industry comparables and "smoothing techniques". Frykman and Tolleryd[11] also state that in cases in which companies are not publicly traded, it becomes difficult to estimate beta and we should rather use a Beta of comparable firms or, if available, a Beta of the relevant sector.

It is also very important to establish a relationship between the value of the levered and the unlevered Beta. The unlevered beta (also referred as the asset beta) is determined only by the assets the firm owns; while on the other hand, the levered beta, is determined both by the operational risk of the operational business and by the amount of financial leverage risk it has

[10] Koller et al. (2010)
[11] Frykman and Tolleryd (2003)

taken on. It is therefore intuitive that the levered beta will be higher than the unlevered beta. This relationship can be seen below (assuming a debt beta equal to zero)[12].

(14)

$$\beta_L = \beta_U * \left[1 + (1 - T) * \left(\frac{D}{E}\right)\right]$$

Equity Risk Premium

Stowe et al.[13] defines risk premium as the excess return measured in relation to the risk-free rate. It is basically the compensation/return one gets from choosing a riskier over a zero-risk investment. We can compute it either based on historical average differences between equity market and government debt returns, or based on the expected earnings of an equity index.

Risk-Free Rate

The risk-free rate is the expected rate of return on a long-term investment with guaranteed returns. For an investment to be considered risk-free it has to meet two conditions: 1) there can be no risk of default associated with cash flows and 2) there can be no reinvestment risk.[14] Normally ten or thirty year government bond rates are taken as the risk-free proxy.

1.1.3.4. Terminal Value

When valuing a company we have to divide it into two different time periods. For the reason that we cannot estimate the cash flows forever we need to compute a terminal (or continuing) value for the cash flows after a certain period. Koller et al.[15] stated that the continuing value often accounts for a large percentage of the company's value and thus, it is an important part of a valuation process. The value of a company can be seen as follows:

(15)

$$\begin{gathered}\text{Value} = \text{PV CF during Explicit Forecast Period} \\ + \\ \text{PV CF after Explicit Foreast Period}\end{gathered}$$

The first term is computed by making assumptions for our explicit period. The second one, the terminal value, we computed the future years all at once, avoiding the need of projecting and discounting the CFs for every single year.

[12] Damodaran (2012)
[13] Stowe et al (2007)
[14] Damodaran (2013)
[15] Koller et al (2010)

There are a lot of methods to compute terminal value. Koller et al.[16], for instance, concludes that the best method is the Key Driver Formula (in Appendix 1). Damodoran[17], on the other hand, refers three other methods to compute the continuing value:

Liquidation Method - we assume the firm will cease operations at a point in the future and sell the assets it has accumulated to the highest bidders. It can be estimated either based on the book value of the assets, adjusted for inflation during the period, or either based upon the future earnings power of the assets;

Market Multiples Approach Method – in this approach the value of a firm in future years is estimated by applying a multiple to the firm's earnings or revenues in that year. This is dangerous as it makes the DCF valuation look more like a relative valuation. Let us not forget that the terminal value often constitutes the majority of total enterprise value.

Lastly, the *Stable Growth Method*, the one we will be using in our valuation and address in more detail. According with Frykman and Tolleryd[18] for the Stable Growth Method we have to follow the following steps:

1. Estimate a constant growth, g, from the last year's explicit period, until infinity.
2. Take the estimated free cash flow from the last year of the explicit forecast period, and multiply it by the constant growth factor (1+g).
3. Discount using the appropriate discount rate, less the constant growth.

The general formula is given by:

(16)

$$\text{Terminal Value}_t = \frac{\text{Cash Flow}_{t+1}}{r - g_{stable}}$$

Keep in mind that the cash flow and the discount rate used will depend upon whether we are valuing firm or equity, just like we have seen in the intrinsic valuation chapter.

To conclude, one thing in common to all these continuing-value approaches is that they all assume the company has reached a steady state of growth. This is a crucial condition and it is defined by:

1. The company growing at a constant rate by reinvesting a constant proportion of its operating profits into the business.
2. Earning a constant rate of return on both existing capital and new capital invested.

[16] Koller et al. (2010)
[17] Damodaran, (2006)
[18] Frykman and Tolleryd, (2003)

It is therefore essential the explicit period to be long enough for that the company reaches a "steady state".

1.2. Relative Valuation

In relative valuation (also called multiples valuation) we assume the value of the company based on the value of similar companies in the market. We do it by computing ratios that express firms' value relation to specific financial measures such as sales, earnings, EBIT or book value.[19]

We shall therefore choose which multiples to use and which comparable companies to consider.

1.2.1. Peer Group

When looking for comparable firms, there are some things we need to take into consideration. Koller et al.[20] says we should consider companies with similar ROIC and growth rates.

However, they alert for some mistakes people often do. According to them the most common error is to establish a comparison with an industry multiple without even narrow the peer group to those with similar performance. Also important is to attend not only to the present but also to the future expectations of the companies. Therefore, it is important that we consider not only if companies are competing in the same markets and exposed to the same macroeconomic forces but the company's strategy as well.

In most of the cases, companies disclose information about their competitors in the Annual Reports. For a more careful analysis the Global Industry Classification Standard (GICS[21]) should be used.

1.2.2. Multiples

According to Koller et al.[22] we first need to make sure we use the right multiple and after we compute it in a consistent manner - basing the numerator (value) and denominator (earnings) on the same underlying assets (for instance if we exclude cash from value we have to exclude income from the earnings).

[19] Frykman and Tolleryd (2003)
[20] Koller et al. (2010)
[21] developed by Morgan Stanley and Standard & Poor
[22] Koller et al. (2010)

There are many types of multiples classifications but we only distinguish between enterprise and equity multiples. The first gives the value of the entire firm and the numerator is the enterprise value; the second gives the value of the equity and the numerator is the price.

Although Fernández[23] states that PER and EV/EBITDA are the most popular multiples, depending on the case there are more appropriate ones than others.

According to Koller et al.[24], PER has two major flaws. Onw is related to the fact that it tends to be higher in unleveraged firms, since the managers can intentionally increase PER by replacing debt with equity. The second occurs because it is based on earnings (net income) and it can be affected by non-operating and one-time gains or losses.

Furthermore, he also states that we should always start by computing the EV to EBITA as it tells more about a company's value than any other multiple. We should use EBITA over EBIT once the amortizations are not tied to the future cash flows and they will distort the EV multiples. Finally, we should use EBITA over EBITDA because even though depreciations are sun costs, they are also an "accounting" of the future cash expenditures we will have when we replace the tangible assets. Thus, in this scenario, EBITA is the most accurate method.

Despite all this, one very common multiple used mainly in the airline industry and somewhat used in the hospitality industry is the EV/EBITDAR (earnings before interest, taxes, depreciation, amortization, and rent) multiple. This is used when there are significant rental and lease expenses. Hotel properties can be owned, leased, managed or franchised.

To conclude, a distinction between forward and backward multiples has to be done: the first is based on analyst's forecasts while the second is based on historical data. Empirical evidence shows that forward-looking multiples are indeed more accurate predictors of value than historical multiples[25].

1.3 Techniques used for NH Hoteles

For the purpose of valuing NH Hoteles we have decided to use the FCFF approach and discount it with the WACC. Our company has debt on its balance sheet, which makes the methods of valuing equity inapplicable. The reason we chose to use WACC instead of breaking down the value of the company into the value of its equity and the value of the tax shields generated by debt is twofold. First, it becomes complicated to allocate the debt to each of the Business Units and estimate the value of the generated tax shields. Second, one of the key

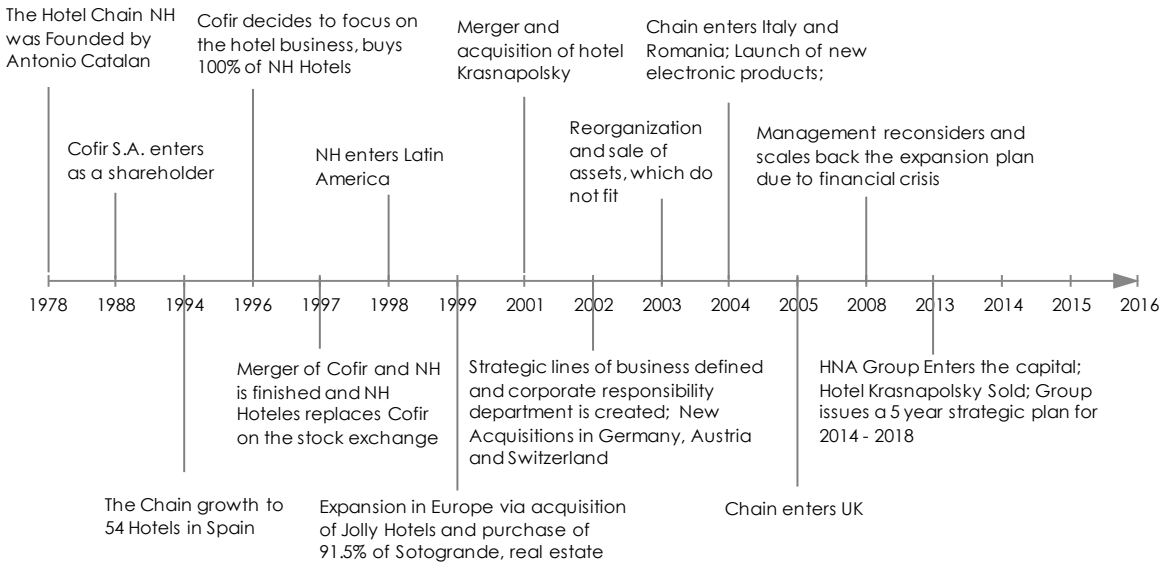
[23] Fernández (2001)
[24] Koller et al. (2010)
[25] Koller et al. (2010)

assumptions we make is that after the ten years our firm will move to a period of stable growth, with a stable debt to equity ratio. In this scenario, applying the FCFF and WACC simplifies the process. Since the two should theoretically yield the same result, we prefer to use the simplified model to avoid errors.

2. Company Overview

2.1. NH History

Figure 1. Historical timeline of key milestones for NH Hoteles



Source: Company Data

2.2. NH Hoteles in a snapshot

NH Hoteles is the third largest hotel Brand in Europe and one of the Top 25 Hotel Chains Worldwide. As of 2015, the group has 383 hotels with 59,254 rooms in 29 different countries. It is listed on the Madrid Stock Exchange with a market cap of 1.19bn€.[26]

2.3. Markets

The company is present in 29 countries and the operations are divided into business units according with managerial preferences. Company has five different Business Units each one comprised of a set of countries:

Spain BU

As of September 30th 2015 it included 144 Hotels and 18,055 rooms distributed along Spain, Portugal and Andorra. Spain alone accounts for 98% of the unit, with 140 and 17,723 of the total amount.

Italy BU

This is the only business unit that has one country within with. The only country in this BU is Italy and by September 30th, 2015, there were 54 Hotels with 8,483 rooms spread throughout the country.

[26] As of February 12th

Benelux BU

As of September 30th it had a total of 51 Hotels and 9,192 rooms distributed along the Netherlands, Belgium, France, England, South Africa and Luxembourg. From these figures Holland by itself accounts for 73% of the rooms, and together with Belgium this number rises to 91%.

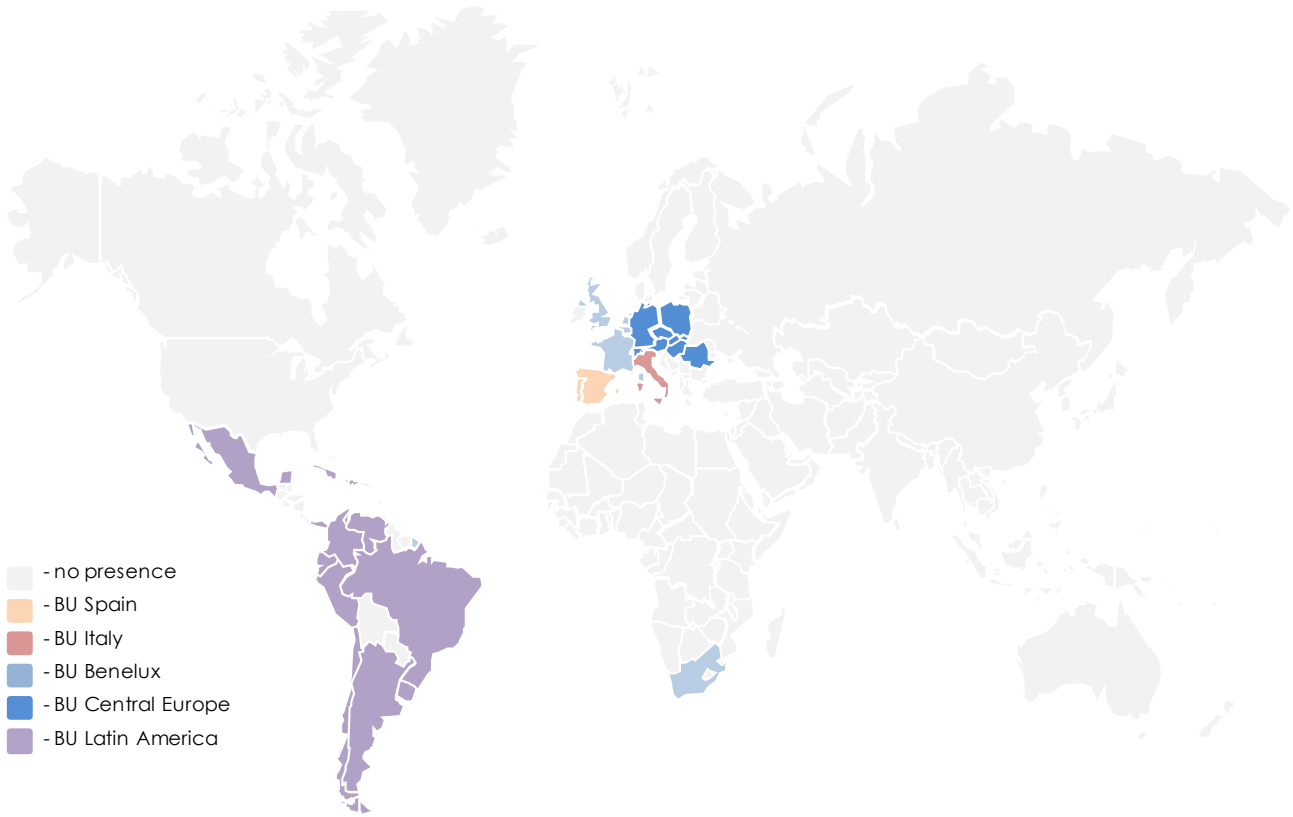
Central Europe BU

Countries included in this BU are Germany, Austria, Switzerland, Czech Republic, Romania, Hungary, Slovakia, Poland and United States. The BU has 13,493 rooms distributed alongside 77 hotels. Germany is the biggest member and accounts for 77% of the unit, and if we add Austria the two account for 86%.

Latin America BU

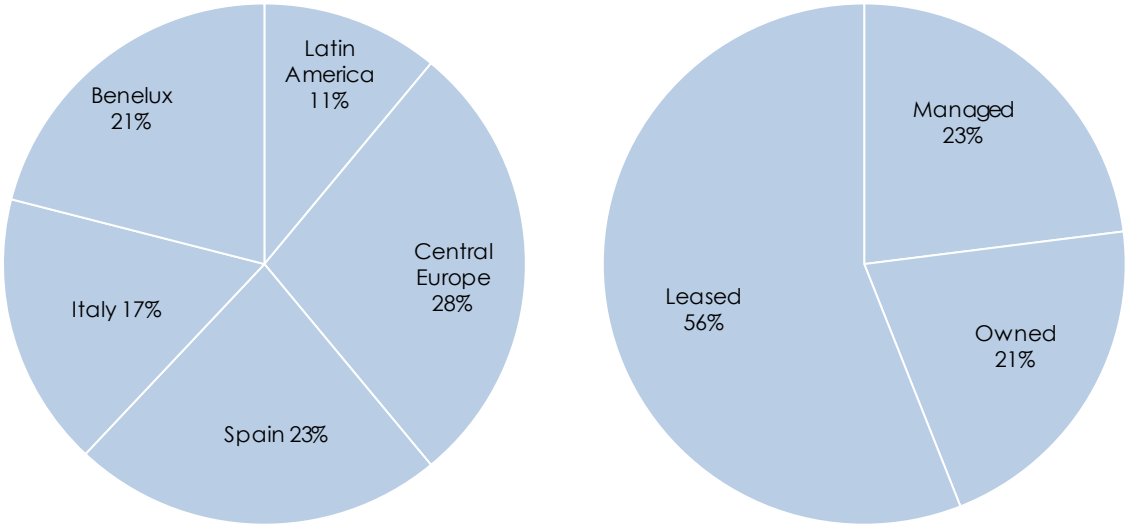
Finally, the Group has 57 Hotels in Mexico, Argentina, Dominican Republic, Venezuela, Uruguay, Colombia, Haiti, Ecuador and Chile totalizing 10,031 rooms. Considering only the leased and owned rooms (from where most of the revenues comes) Mexico, Argentina and Colombia alone account for 85% of the total.

Figure 2. Geographical presence of NH Hoteles



Source: Company Data

Figure 3. Hotel Geographic distribution by Net turnover and by Owned Hotel's Value distribution



Source: 5 year plan presentation NH Hoteles

2.4. Hotel's operating model

NH Hotel Group operates its properties using three different models, which mostly depend on the property ownership rights: (1) they own the hotels; (2) they lease hotels from the owners; and (3) they manage hotels owned or leased by third parties. For the first two types of Hotels (Owned+Leased) revenues and costs are consolidated. As for the managed rooms they only consolidate the fees they earn by "lending" the NH brand and do not account the properties on their balance sheet.

2.5. Strategic Plan

This five year ambitious plan includes a series of initiatives for the period from 2014 – 2018. The main objective of these initiatives is to improve the financing structure of the group and its operational efficiency. To do so the Group will focus mainly on:

***New Value Proposition*:** New brand architecture was created. The group is investing in the quality of its hotels to capture clients with larger disposable income (wealthier).

***Portfolio Optimization*:** A 237M€ refurbishment plan is on the way and an asset rotation has been carried to see which assets fit the new strategy.

Increase Direct Sales: focusing on online and mobile sales as well as establishing new agreements with relevant partners.

Costs Efficiency: Continue optimizing processes and purchases (with Coperama platform) and negotiate and eventually terminate some of the leasing agreements that are considered to be inefficient.

The first two initiatives are aimed at increasing revenues as on the other hand the last two at decreasing costs.

2.6. Brand architecture

In the last two years since the strategic plan took off the Group has been carrying out an asset rotation by dropping out a lot of its budget-friendly properties and repositioning itself towards the upper and upscale hotels.

The vision is clear: to focus on the upper scale and upscale categories with some minor midscale hotels. At the beginning of the plan back in 2013 the company's portfolio allocation into categories was 1%, 85% and 14% to upper upscale, upscale and midscale categories respectively; in 2018, the year of conclusion, it is expected to be 26%, 64% and 11% respectively, in a clear shift towards a higher value proposition and profit maximization that should be mainly achieved by an ADR increase on the premium segments.

Further information regarding NH Hoteles Brands can be seen in Appendix 2.

3. Industry Overview

Before the slightest assumption for our valuation it is crucial to answer ourselves this fundamental question: "What business are we in?" Indeed, it is impossible to evaluate a company if we do not know in which industry it operates and which fundamental factors are hidden behind it. Understanding the environment will give us the key drivers that in the long run can affect our financial conditions and operational results.

NH Hotel S.A. is mainly a hotel chain. Consequently, we believe Travel, Tourism and Hospitality Industry would be the most appropriate one to refer. Although the actual industry is called the Hospitality Industry, once it depends almost entirely on the prospects of the Travel and Tourism Industry, we believe it is important to join the two. Also, as Hospitality is a very broad industry that includes everything from holiday accommodation to event planning, theme parks and transportation; in our analysis we will basically be referring to the Travel and Tourism segments. Moreover, we will focus on this particular subsector – accommodation.

To do so, first we will take a global look at the industry and then we will go in detail into each one of the Business Units the company owns. Because some countries account very little for the total B.U. contribution we will only approach those relevant to each B.U. as we believe that an extensive analysis of each one of them will not add value to this dissertation. For this purpose, we will be using mainly 3Q and 4Q 2015 BMI Research Tourism Reports.

3.1. Global overview

Tourism is one of the biggest industries in the World: it accounts for 9% of World GDP, employs one in every eleven workers throughout the World; it is responsible for almost 6% of the World's exports; and rose from 25 million international tourists in 1950 to 1,133 million in 2014. Even more important, it plays a major role in developing countries' economies. With more and more travel destinations opening for tourism worldwide, socio-economic progress is likely to follow.

In 2009, after four years of strong, above-trend growth, under the impact of the 2008-2009 economic crisis, the international tourism suffered one of its toughest years in decades, reflected in significant declines in international tourist arrivals (-4%) and international tourism receipts (-6%)[27]. Since then, we have witnessed a great turnaround of the industry, and although we can still feel the legacy of the financial storm in the horizon, we believe the outlook can only be promising. One of the key reasons are millennials, or generation Y. They are characterized by a stronger willingness to pay for the experiences, rather than material goods.[28] Travelling is one of the major ways of getting new experiences and as more millennials are reaching their adolescence and gain the spending power this can only be positive for the industry. Together with this economic progress of highly demographic economies such as India and China and with faster and cheaper new ways of traveling, these numbers are set to continue growing at a strong pace.

3.2. B.U. Spain

Spain

Spain is the third largest tourist market in the world. With a pleasant climate and a good range of activities options that go from beaches to mountain ranges and world renowned cities. It is one of the most popular holiday destinations globally, attracting especially those tourists coming from Europe.

Although Financial Crisis had a major impact on the tourism sector affecting rather significantly the number of arrivals, this number has been growing slowly for some years now. Together with this, the recent currency weakness should help the sector even further, as more non-euro tourist will come as they benefit from the good exchange rate and at the same time Eurozone travelers will opt to stay within the region for their holidays. Indeed, even with the current political crisis in which Spain can go for another round of elections (with Podemos, the

[27] UNWTO,2010 Annual Report
[28] BCG Millennials study

anti-austerity political party with a slight chance of taking part in a new government coalition) and with Cataluña's affairs remaining unresolved (though we do not see it as realistic in years to come) we still maintain our positive outlook for Spain. According to BMI Research report, inbound tourism is expected to growth over the next years and this on top of what is already one of the biggest arrivals figures in the World. In the table below we can see those figures, as well as the contribution from Europe that accounts for almost all the arrivals.

Table 1. Inbound Tourism (Spain)

	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
Total arrivals, '000	57.701	60.661	64.995	67.836	70.707	72.258	73.925	74.988
Total arrivals, % y-o-y	1,8	5,1	7,1	4,4	4,2	2,2	2,3	1,4
Arrivals, Europe, '000	50.221	52.902	57.001	59.390	61.876	63.239	64.714	65.754
Arrivals, Europe, % y-o-y	02	5,3	7,7	4,2	4,2	2,2	2,3	1,6

Source: BMI

As for the hotel industry, and despite the growth in the sector, because Spain is already a mature and developed market, not much of a growth is expected. Nevertheless, the recent flow of investments from Middle East and China may change this macro trend and BMI forecasts the total number of hotels to increase

The top 10 sources of inbound tourism are all from Europe. According to the estimates of BMI this trend is expected to keep steady over our forecast period with UK remaining the largest country, expecting more than 20bn visitors by 2019, almost 10mn more than the next largest source market, Germany.

Table 2. Hotel Accommodation (Spain)

	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Number of hotels, '000	15,00	14,82	14,88	14,93	14,97	15,02	15,06	15,10
Number of hotels ,% y-o-y	0,00	-1,20	0,40	0,30	0,30	0,30	0,30	0,30
Hotel rooms, '000	79,7	83,3	74,6	75,5	76,3	77,1	77,9	78,7
Hotel rooms, % y-o-y	3,90	4,60	-10,40	1,10	1,10	1,10	1,00	1,10
Occupancy rate, %	52,10	53,00	53,10	53,10	53,10	53,20	53,20	53,20
H&R industry value, EURbn	69,82	70,63	73,68	76,22	78,89	81,11	83,36	85,84
H&R industry value, % y-o-y	-2,10	1,20	4,30	3,50	3,20	3,10	2,80	3,00

Source: BMI

3.3. B.U. Italy

Italy

Italy is the second most visited country in Europe, just after France and Spain, and the fifth in the World. With more World Heritage Sites than any other country in the world, with typical picturesque towns which range from beautiful coastline regions to great mountain ranges, it is

one of the most iconic tourism destinations in the World, and certainly attracts people – a lot of them.

Although in the last year's growth has been timid and fairly stagnant, Italy's tourism showed a glimmer of hope in 2014. Together with this, the outlook for Italy is positive and steady growth is foreseen, starting with 2015 sharp increase mostly due to Expo Milan 2015.

Table 3. Inbound Tourism (Italy)

	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
Total arrivals, '000	76,734	77,175	78,632	83,797	86,969	89,037	91,190	92,502
Total arrivals, % y-o-y	0.5	0.6	1.9	6.6	3.8	2.4	2.4	1.4
Arrivals, Europe, '000	65,640	63,277	64,465	68,228	70,635	72,288	74,060	75,328
Arrivals, Europe, % y-o-y	-0.6	-3.6	1.9	5.8	3.5	2.3	2.5	1.7

Source: BMI

Similarly to Spain, the weak euro is also likely to cause an increase in the arrivals from countries such as the UK, US and China, since Italy and other euro zone countries become more affordable for tourists from countries with stronger economies. At the same time European arrivals are set to remain constant over the same period.

From the top 10 markets for arrivals, 9 out of 10 are European countries, and by 2019 Europe is expected to account for more than 75M of the expected 92.5M total.

With major presence by most of the world's largest hotel groups and over 500 international hotels, mostly in the luxury tier, Italy has a well-developed hotel sector. Over the past couple of years there has been a shift away from the low cost end of the market, with that segment declining by approximately 5%, compared with an increase of 4% of high-end properties, which is pretty much in line with NH Hotel repositioning plan.

Despite the expected increase in inbound travel to Italy we do not expect to see significant growth in the hotel accommodation sector. Neither hotel numbers nor overall room capacity are set to increase significantly over the next five years, and we expect both of these figures to remain relatively static. The table below summarizes information and the outlook for the Italian Hotel Sector.

Table 4. Hotel Accommodation (Italy)

	2012e	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Number of hotels, '000	33,85	33,86	33,86	33,86	33,88	33,90	33,92	33,94
Number of hotels, % y-o-y	-0,20	0,00	0,00	0,00	0,00	0,10	0,10	0,10
Hotel rooms, '000	1.094	1.094	1.094	1.095	1.095	1.096	1.096	1.097
Hotel rooms, % y-o-y	-0,20	0,00	0,00	0,00	0,00	0,00	0,10	0,10
Occupancy rate, %	61,30	61,30	61,30	61,30	61,30	61,30	61,30	61,30
H&R industry value, EURbn	58,52	58,61	59,09	59,27	60,31	61,66	63,17	64,64
H&R industry value % y-o-y	-0,40	0,20	0,80	0,30	1,80	2,20	2,50	2,30

Source: BMI

3.4. B.U. Benelux

The Netherlands

Following the financial crisis, Netherland's tourism has witness fantastic growth. Since 2009 it has been growing every single year and over the last three years the growth accelerated. For 2015 the country managed to attract nearly 15 million visitors and the outlook for the next years is positive.

Many reasons explain this fact: 1st) the strong growth number of low-cost flying connections to Holland; 2nd) the rising interest from emerging markets like Asia and South America - for instance Chinese visitors increased 21% in 2015; 3rd) the great promotion that has been done by NBTC, what is definitely showing results.

Table 5. Inbound Tourism (Netherlands)

	2009	2010	2011	2012	2013	2014	2015
Total arrivals, '000	9.921	10.883	11.300	11.680	12.783	13.925	14.900
Total arrivals, % y-o-y		9,7	4	3,4	9,4	8,9	7

Source: BMI

The hotel industry appears one to benefit the most from the positive trends in tourism.[29]

In 2014 the occupancy rate returned to close to 70% and ADR witnessed a positive evolution as well. For the future this trend is expected to maintain, very much due to the increase in the inbound tourism. The fact that Airbnb closed a tax deal with the the Amsterdam government means other cities may follow. This can obviously be a concern, however, we still do not see it as a threat to the Netherlands Hotel industry.

Belgium

The country has seen an economic rebound from the 2008 financial crisis, yet the tourism industry seems to have decoupled from this rebound. The number of new visitors has been

[29] Euromonitor, Lodging in the Netherlands

decreasing and for the forecast period we expect it to grow at a very mild pace. However, we are skeptical about the growth for 2016. Brussels recent five days security lockdown and the current fear of a terrorist attack will certainly have an impact on the inbound tourism, and although marketing campaigns can help; they will not end the concerns[30].

Table 6. Inbound Tourism (Belgium)

	2009	2010	2011	2012	2013	2014
Total arrivals, '000	5450,00	5772,00	6076,93	6145,71	6227,65	6388,97
Total arrivals, % y-o-y		5,91	5,28	1,13	1,33	2,59

Source: BMI

As for the Hotel Industry we expect the number of Hotels to maintain stable and we see little to no growth for the industry. We may see a little increase in the ADR but we expect it to be offset by a decrease in the occupancy rate. 2014 also saw online channel to account for almost 30% of the bookings, a trend that we expect to maintain with many of the hotel companies developing their own booking platforms.

3.5. B.U. Central Europe

Germany

Germany is the fourth major European destination and ranks 7th worldwide. With excellent road, railways and connections to the rest of the world, and with an increasing number of low cost companies traveling to the country this number is set to increase. In 2015 inbound tourism already got a 5.3% increase comparing to last year's numbers and the forecast between 2015 and 2019 suggests the sector will see a 10.5% increase.

Table 7. Inbound Tourism (Germany)

	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
Total arrivals, '000	28,626	29,597	29,531	31,119	32,228	33,043	33,882	34,396
Total arrivals, % y-o-y	7.1	3.4	-0.2	5.4	3.6	2.5	2.5	1.5
Arrivals, Europe '000	22,535	23,285	23,044	23,764	24,356	24,905	25,501	26,059
Europe, % y-o-y	5.7	3.3	-1.0	3.1	2.5	2.3	2.4	2.2

Source: BMI

With a wide range of activities that go from mountain hiking, canal tours, city breaks and agro tourism, allied to the great promotion that has been done in the sector and to the fact that is also one of the main destinations worldwide for international trade shows, conventions and conferences, these numbers should not be surprising.

[30] Tourism Campaingn #callBrussels

If we break down the tourists by the countries of origin, we can clearly see that the sector will should see growth. Close to 76% of the tourists arrive from the European Union, where economic activity continues accelerating. The second largest region is Asia Pacific (9.7% of arrivals), one of the fastest growing regions in the world. The third is North America (9.6% of inbound flux), where not only economic growth has recently been positive, but also the FX rate performance of USD vs the EUR should be supportive. We believe the number of tourists from NA and AP is set to increase by 13% and 16.4% respectively until the end of the forecast period. China, due to a new easier and faster way of obtaining visas to the country, allied to the general popularity of the country among Chinese explains the Asia Pacific growth.

As for the supply of the hotels, Germany is already a robust and a well-developed market, accommodating most of the major hotel brands chains. Even though the market is quite saturated on the supply side, we believe there is still room for growth. According to BMI forecasts, the number of hotels is set to increase from 13,560 in 2015 up to 13,990 in 2019 and the hotels and restaurants industry revenues to increase 21% over the next 4 years.

As for the average occupancy rates they are expected to increase from 67.1% to 67.8%, therefore confirming the good momentum and prospects of the market.

Table 8. Hotel Accommodation (Germany)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Number of hotels, 000	3,08	3,10	3,23	3,31	3,49	3,60	3,62	3,64
Number of hotels, %, y-o-y		0,65	4,19	2,48	5,44	3,15	0,56	0,55
Hotel rooms, '000	3.495	3.513	3.650	3.731	3.916	4.020	4.048	4.059
Hotel rooms, '000, %, y-o-y		0,50	3,92	2,20	4,97	2,66	0,69	0,27
Occupancy rate, %	41,90	42,90	43,10	43,20	43,20	43,20	43,20	43,20
H&R industry value, EURbn	9,20	7,30	5,70	6,50	7,20	7,10	6,60	5,70
H&R industry value, y-o-y	12,20	-21,10	-21,90	13,90	10,90	-1,70	-6,70	-12,70

Source: BMI

3.6. B.U. Latin America

Mexico

In 2014 Mexico was the tenth most visited destination in the world, with 29.1 million of arrivals, the sector accounted for 8.4% of the countries' GDP and a very important source of employment. The country has a lot to offer, including excellent beaches, good surfing conditions, Caribbean waters and a rich cultural heritage that make it one of the world's top destinations for cruise liners with a market share of 23%.

Contrarily to the BMI Q3 2015 tourism report that was pointing to 30.7 million of inbound tourism in 2015, the country managed to get 32.1 million of arrivals, what makes a year on year increase of 10.2% instead of the 5.1% growth BMI was predicting. These are impressive numbers and just confirm the great momentum for the tourism industry. Furthermore, BMI estimates for North America - from where 65% of the tourists come - a steady growth of 3% over the forecast period. However, in line with recent developments we will revise upwards these forecasts. With the recent Mexico - U.S. Aviation Agreement the restrictions to the number of carriers allowed to fly between the two countries were lifted and the number of inbound tourist is expected to increase. Furthermore, the fact that Guadalajara was ranked 2nd as the Best Place to Travel in 2016 by Travel+Leisure and that Tulum was named as 1st destination on the rise for 2016 by Trip Advisor make us very optimistic about 2016 and the years to come

Table 9. Inbound Tourism (Mexico)

	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
Total arrivals, '000	23,403	24,151	29,091	30,572	31,775	32,723	33,451	34,725
Total arrivals, % y-o-y	0.0	3.2	20.5	5.1	3.9	3.0	2.2	3.8

Source: BMI

As for the hotel industry, Mexico's hotel industry is enjoying a boom in investment from major international hotel chains. We are seeing now a shift from traditional beach resorts to major Mexican Cities and major hotel chains such as Accor, Hilton, Marriott and Starwood are building up their presence in Mexico. As a result of this investment, and following BMI's figures, we expect the number of hotels to grow. By 2019, there are forecasted 23,300 hotels, up from 21,040 in 2015. This will take the number of available rooms to 841,130, up from a projected 769,750 in 2015. We forecast occupancy rates to remain level at around 51.1% throughout the forecast period, indicating that the hotel industry can absorb the supply of new rooms

Table 10. Hotel Accommodation (Mexico)

	2012e	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Number of hotels, '000	16,94	17,37	20,22	21,04	21,70	22,22	22,62	23,30
Number hotels, % y-o-y	0,00	2,60	16,40	4,10	3,10	2,40	1,80	3,00
Hotel rooms, '000	640,6	654,2	743,8	769,8	790,6	807,0	819,4	841,1
Hotel rooms, % y-o-y		2,10	13,70	3,50	2,70	2,10	1,50	2,70
Occupancy rate, %	53,20	51,70	51,30	51,10	51,10	51,10	51,10	51,10
H&R ind. value, EURbn	19,10	19,50	18,90	23,20	25,30	26,20	27,30	26,50
H&R ind. value, y-o-y	8,30	2,30	-3,30	22,70	9,40	3,50	4,00	-2,90

Source: BMI

Argentina

On October 22nd 2015, Mauricio Macri winning of the Argentinean presidential election made an end to Kirchnerismo, the couple that guided the country for 12 years. This suggests the country will make a shift to the right. According to Macri speeches, his main goal is to reduce the government controls over the economy of Argentina and move it towards a free market. So far he has made several steps towards his goal. One of the most notable ones was the decision to free float the peso. We believe that the new government should be supportive for the Argentinian economy and stimulate inflows of tourists into the country.

According to BMI view as of September 2015 - the date of the 4Q Tourism Report – the uncertain economic climate and perceived political instability, in conjunction with high costs (fueled by the elevated inflation) compared with some of its regional peers, resulted in a decline in arrivals over the first part of 2015, with foreign visitors choosing instead less costly countries and Argentineans opting to leave the country for their holidays. Despite this fact, BMI appointed a 2.5% growth in arrivals for 2015, as according to the report a reverse in the second semester of the year was expected. In line with recent data however we decide to challenge these values and we will assume a zero growth for 2015, maintaining BMI's forecasted growth for the other years. For the forecast analysis we can expect a diminishing from European arrivals mainly to the Euro Weakness and the growing interest in Brazil as a destination, with on the other hand the inbounds from Latin America expected to be steady.

Table 11. Inbound Tourism (Argentina)

	2012	2013	2014	2015e	2016f	2017f	2018f	2019f
Total arrivals, '000	5,246	5,935	6,160	6,160	6,345	6,510	6,692	6,880
Total arrivals, '000, % y-o-y	70.8	13.1	3.8	0.0	3.0	2.6	2.8	2.8
Arrivals, '000 Latin America	3,225	3,576	3,585	3,535	3,575	3,621	3,723	3,835
Arrivals, Latin America, % y-o-y	58.8	10.9	0.2	-1.4	1.1	1.3	2.8	3.0

Source: BMI

As for the hotel industry if in the last years of the review period the industry faced several challenges due to increasing retention rates, high inflation, large peso devaluation and foreign exchange restrictions; for the future our outlook is very positive. With the settlement of an agreement with vulture funds over a dispute that lasts for over a decade, Argentina will finally be able to access international capital market, boosting the economy and subsequently decreasing the inflation. This will not only attract more FDI – therefore our forecasted of growing number of hotels – as in the long run we expect a currency appreciation of Argentine Peso therefore boosting international players revenues in the region.

Table 12. Hotel Accommodation (Argentina 2012-2019)

	2012	2013e	2014e	2015f	2016f	2017f	2018f	2019f
Number of hotels, 000	3,08	3,10	3,23	3,31	3,49	3,60	3,62	3,64
Number of hotels, %, y-o-y		0,65	4,19	2,48	5,44	3,15	0,56	0,55
Hotel rooms, '000	3.495	3.513	3.650	3.731	3.916	4.020	4.048	4.059
Hotel rooms, % y-o-y		0,50	3,92	2,20	4,97	2,66	0,69	0,27
Occupancy rate, %	41,90	42,90	43,10	43,20	43,20	43,20	43,20	43,20
H&R industry value, EURbn	9,20	7,30	5,70	6,50	7,20	7,10	6,60	5,70
H&R industry value, y-o-y	12,20	-21,10	-21,90	13,90	10,90	-1,70	-6,70	-12,70

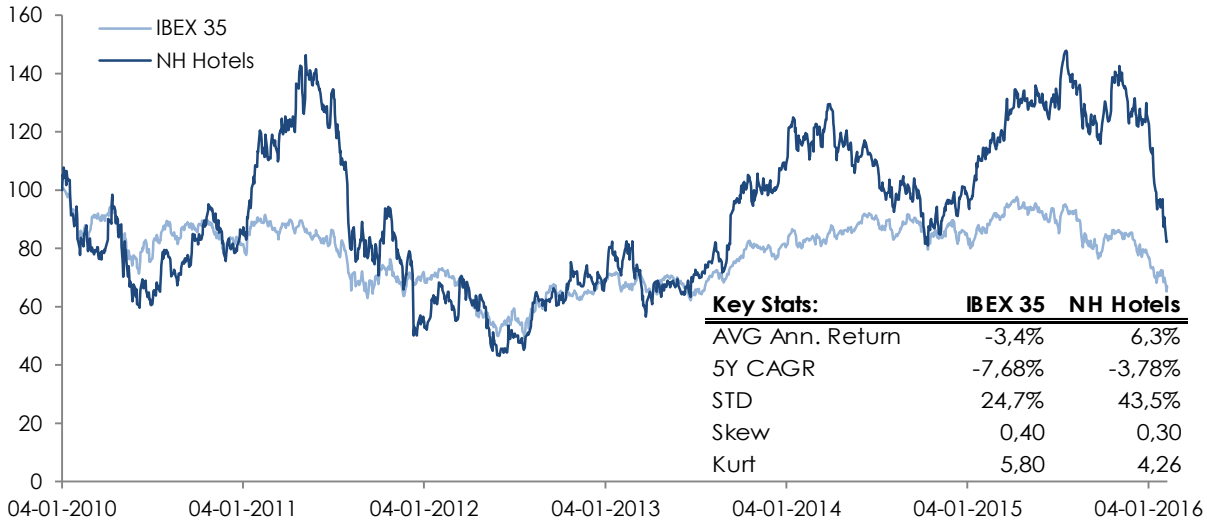
Source: BMI

4. Valuation of NH Hotel Group

4.1. Before we start

Before we begin our fundamental valuation of NH Hoteles, we believe it is important to see the historical performance of the stock price. We have chosen IBEX 35 as the benchmark index, because it broadly represents Spanish equity market where NH Hoteles is traded. Moreover, the correlation between daily returns of IBEX 35 and NH Hoteles was 57% over the last five years. Over the last five years, NH Hoteles has outperformed its benchmark IBEX 35. As you can see on figure 1 the CAGR for NH Hoteles has been -3.78% since 2010, while for IBEX 35 it was -7.68% and annualized average daily return[31] was 6.3% vs -3.4% for the IBEX 35. Nevertheless, better returns have been accompanied by higher risk, which we can see by looking at the standard deviation. Such a difference is logical and can be simply explained by the fact that IBEX 35 is a portfolio of stocks from different sectors. Consequently, there should be an effect of the diversification as those sectors are driven by different underlying variables.[32] As for the distribution of the returns, neither of them follows a normal distribution, which we can see from the Skewness and Excess Kurtosis[33]. With this in mind, we believe performance of NH Hoteles will follow the same pattern in the future and deviate from the performance of the benchmark index. Thus, fundamental valuation is important to see the theoretical price that the stock can reach in the medium term.

Figure 5. NH Hoteles vs. IBEX 35 (Jan2010=100)



Source: Thomson Reuters

[31] We annualize returns multiplying daily return by 252; As for the Standard Deviation, we multiply it by $\sqrt{252}$ due to the fact that standard deviation is a square root of the variance.
[32] For example some of them are cyclical, while others are defensive.
[33] Skewness and excess kurtosis are equal 0 in the normal distribution.

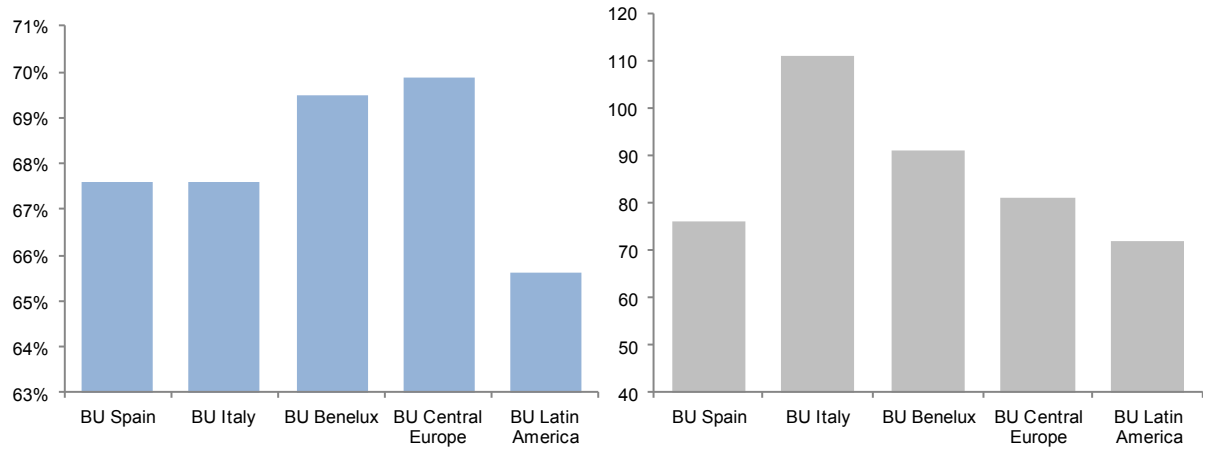
4.2. Understanding key drivers and business model

The core part of the valuation process lies in understanding the business model and its key drivers. Indeed, before we proceed one has to understand and comprehend all the industry KPI's and how the business is structured.

In the hotel industry we have identified three main key drivers: *1) Average Daily Rate (ADR)* is the quotient of total room revenues for a specified period divided by total Room Nights sold during that period. It gives us the revenue per occupied room; *2) Occupancy* is the quotient of the total number of Room Nights sold during a specified period divided by the total number of rooms available for each day during that period; *3) Total Number of Rooms* in NH Hotel's case refers to the Owned plus Leased rooms as the Managed rooms only account as a fee and therefore are not even considered in the calculation of the key drivers**.** With these three values we have quite a good proxy for the estimation of the hotels revenues.[34]

Furthermore, as NH Hotel Group is divided into Business Units we will look at each one of them separately and try to come up with a valuation for each one of the five B.U. as we believe this will provide a better understanding of the company's situation. Below, in figure 1 and 2, we can see the Occupancy and ADR figures for each one of the units.

Figure 6 .Occupancy Rate by B.U. (2015 % of tot. Rooms) Figure 7. ADR (EUR)



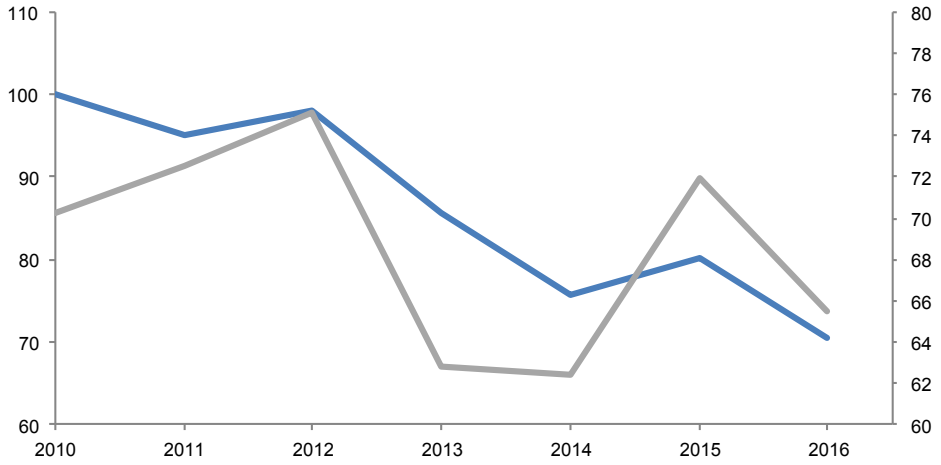
Source: Company Data

Another important aspect regarding the business model of the group that we should consider are the foreign exchange risks and how they will affect our profits in the Latin America Business Unit, the only that carries significant currency risks. To illustrate the overall performance of the Latin American Currencies, we have built an index of their performance vs. the EUR, weighted by the number of rooms in each country. The currencies in the basket include: Argentinean Peso, Dominican Peso, Venezuelan Bolivar, Colombian Peso, Chilean

[34] ADR × Occupancy × Total Average Rooms

Peso and Mexican Peso. Over the past five years, the room-weighted FX index has lost almost 30% of its value (see figure 3) and the revenues of the LatAm unit have been following the FX quite well.

Figure 8. LatAm FX (Index) vs. LatAm ADR (EUR)



Source: Thomson Reuters, Company Data

4.3. Discounted Cash Flow Valuation

In our analysis first we will be using a DCF-WACC valuation as our main model followed by a relative valuation through trading multiples as a cross checking model. In this part we will compute the FCFF and then discount it at WACC to have the value for NH Hoteles. Because we cannot forecast the cash flows forever we will estimate them on a year on year basis for our explicit period and then we will compute a terminal value that will give us the present value of the future cash flows assuming a growth at a constant rate forever. For our valuation we considered a period of ten years (2016 – 2025). Most of the initiatives, presented by NH Hoteles in the five year plan will be accomplished by 2018. After this we believe it will take a couple of years for all the initiatives to materialise, which may impact the growth. Nevertheless, following the next 10 years we expect the FCFF growth to converge towards a permanent rate for all the business units.

4.3.1. Forecasts

The most important part of the valuation is of course the assumptions one makes. We will now go through all the items we used to reach the FCFF and specify all the assumptions we used for the estimations.

4.3.1.1. Revenues

Revenues are the key driver of any business and are of an extreme importance for a DCF valuation. Many of the other items forecasts will depend on the revenues. If we look at the revenues structure over the past years we can see that Sotogrande S.A sold in 2014 was the only item accounting for revenues from Real Estate. Thus, considering NH Hoteles disposed of Sotogrande, those revenues are likely to disappear.

The only two items in the IS (aside from Real Estate revenues) are revenues from Hotel Activity that represents roughly 95% of the total and revenues from Openings, Refurbishments and Others. Since the latter one is a very small item and there is no information on the Annual Report whatsoever we just assume this value to be consistent according to 2015 figures. As of 2015 it accounted for for 6% of the total revenues.

The Hotel Revenues figure this value incorporates *1) "Hotel Occupancy", 2) "Catering", 3) "Meeting Rooms and Others"* and finally *4) "Rentals and Other Services"*.

From these four the only we will be estimating in detail will be the "Hotel Occupancy" item by estimating the *ADR, Occupancy and Total Average Rooms* for each one of the Business Units. As for the other three (2); 3); 4)) we will compute them as a percentage of "Hotel Occupancy" based on the average of the last five years (2011 - 2015).

ADR, Occupancy and Average Rooms Estimations

For 2015 we used the 12 months 2015 Sales and Results Report. As for the remaining years in the analysis we used a consistent methodology in all the five B.U: 1) regarding the *Occupancy* we assumed the BMI report's growth over the period; 2) for the *ADR* - because this value depends mainly on the repositioning plan - we just assumed the two years ADR growth since the beginning of the plan back in 2013 as a proxy and we used it to forecast 2016, 2017 and 2018 ADR values based on each year's expected completion stage of the repositioning plan. As for the remaining years in the analysis (2018-2025) we do not expect any major factor influencing the price of the hotel rooms and we just assume prices will grow at a pace close to inflation rate forecasted by the International Monetary Fund; 3) finally, for the *number of Total Rooms* we estimate the number of openings based on the information given in the "2015 12 months Sales and Results" report regarding the "signed projects pending opening" for the period until 2018. We also incorporate other openings suggested by the Investors Relations Department of NH Hoteles. We believe it is important to clarify two things about the new room openings. Firstly, as we already refer in the company overview, for this value we only consider the Owned + Leased rooms as the revenues coming from the Managed rooms are not

considered in "Hotel Occupancy" item and are only accounted as fees. Secondly, for the computation of the Hotel Revenues, NH uses the Average Room indicator, as often some Hotels and Rooms are not fully operational. We estimate the total Rooms figures for our forecast period first and we use a historical ratio of Total Rooms to Average Rooms to get the value of AVG. Rooms that we then use as a key input for our revenues. Tables below synthesize the information:

Table 13. Key revenue drivers by business unit

ADR	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Spain	67,2	69,8	77,3	81,6	82,4	83,1	84,2	85,5
Italy	88,3	95,9	111,4	121,3	123,0	124,6	126,2	127,9
Benelux	85,5	86,3	91,7	94,4	94,8	95,2	97,0	98,8
Central Europe	76,9	77,7	82,4	84,8	85,2	85,6	87,1	88,7
Latin America	62,8	62,4	72,4	76,5	77,2	77,9	80,5	83,2
Occupancy (%)								
Spain	63,6%	65,2%	67,8%	67,8%	67,8%	67,8%	67,8%	67,8%
Italy	62,3%	65,9%	67,1%	67,6%	67,6%	67,6%	67,6%	67,6%
Benelux	66,7%	67,6%	68,1%	68,1%	68,1%	68,1%	68,1%	68,1%
Central Europe	68,2%	72,6%	69,5%	69,5%	69,5%	69,5%	69,5%	69,5%
Latin America	66,6%	69,4%	66,6%	66,6%	66,6%	66,6%	66,6%	66,6%
RevPAR								
Spain	42,7	43,9	52,4	55,3	55,8	56,3	57,1	58,0
Italy	56,7	63,2	74,7	82,0	83,1	84,2	85,3	86,4
Benelux	57,0	58,3	62,4	64,3	64,6	64,9	66,0	67,3
Central Europe	54,8	56,5	57,3	58,9	59,2	59,5	60,5	61,7
Latin America	48,9	57,3	60,3	72,2	72,4	73,1	75,5	78,0

Source: Company Data

4.3.1.2. Operating Expenses

The next essential part of estimating the FCFF is the expenses. NH Hotel splits expenses into three items in its Income Statement and we follow this breakdown. Total OPEX includes: *1)* the *staff costs, 2)* the *Direct Management Costs* and 3) the costs *with Openings, Refurbishments and Others*. Because the *Openings, Refurbishments and Others (O.R.O.)* item only accounts for 7% of the operating expenses we decided that for the future years we would assume the 2015 proportion to the same item's revenue. O.R.O. Expenses were on average 77% of the O.R.O. Revenues from 2010 to 2015.

As for the other two main items we will analyze them in greater detail further in the paper. The first item is the staff cost. We forecast the staff costs on the consolidated level and then allocate them to each of the business units using the total rooms ratio. The key driver for staff costs is

the number of employees. Most of the employees in the company can be directly linked to the number of rooms it operates and we believe it will be most appropriate to incorporate this relationship into our model. Hence, we use the employee per room ratio to see how many people NH Hoteles will need in the future. We also adjust the employee cost for inflation, but we do it at a Business Unit level, because inflation differs across the regions.

As for the Direct Management Cost we also tried to forecast them according to the number of rooms by each B.U. but we noticed these figures were overstated for some of the B.U.: we decided then to do it as a percentage of the revenues. Because in the beginning of 2015 NH started a three years' investment in IT software we assumed our gross operational margins to have a y-o-y 0.5% improvement for 2015, 2017 and 2018 and to be constant over the rest of the period.

4.3.1.3. Tax Rate

Because we split the valuation into business units we should estimate an appropriate tax rate for each of them. In order to do so we use the effective tax rate of the most relevant countries in each of the B.U.s and weigh them by the number of rooms to get a value for each one of the B.U. (1) For the Spanish B.U we considered Spain; (2) for Italy, Italy; (3) for Benelux, Holland and Belgium; (4) for Central Europe, Germany and Austria; finally (5), for Latan, we considered Mexico, Argentina, Venezuela and Colombia. NH Hoteles provides the tax rates for most of the countries it operates. For the ones that are missing we use the 2015 KPMG corporate tax rate report. Table below summarizes the information:

Table 14. Estimation of B.U. Tax Rate

Business Unit	Rooms	% Weight	Tax
BU Spain			**28%**
Spain			28%
BU Italy			**32%**
Italy			32%
BU Benelux			**27%**
Holland	6709	81%	25%
Belgium	1619	19%	34%
BU Central Europe			**29.5%**
Germany	10438	90%	30%
Austria	1183	10%	25%
BU Latin America			**24.8%**
Mexico	1984	29%	30%
Argentina	2050	30%	35%
Venezuela	1185	17%	34%
Colombia	1700	25%	0%

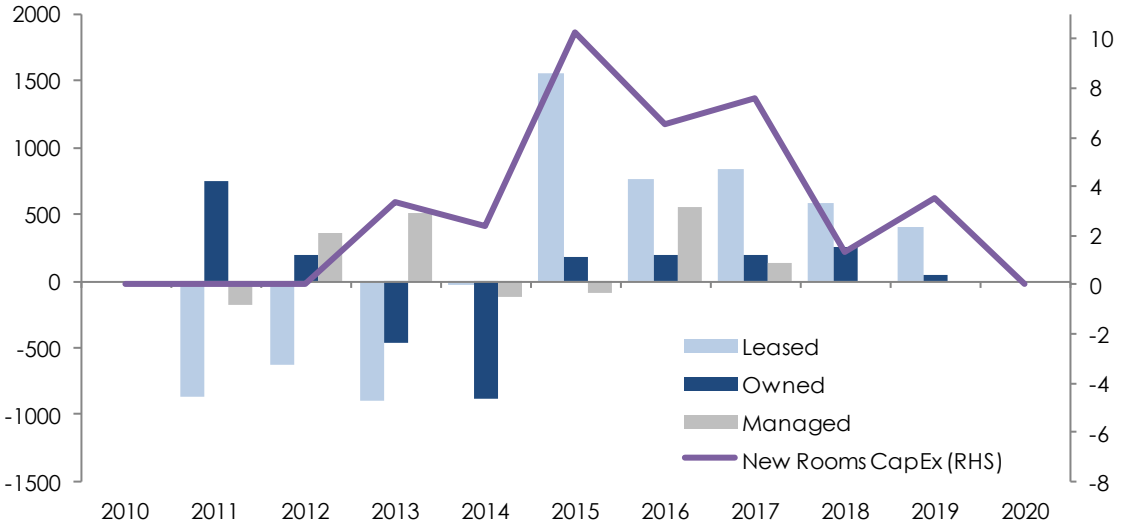
Source: Company Data, KPMG

4.3.1.4. Capital Expenditures

The capital expenditure related to the openings of the new hotels appears to be rather small, if we break down the total CapEx of NH Hoteles. As of 2015, the CapEx of the group was the following[35]: 1) Maintenance CapEx (EUR45mn) – costs related to the renovation of the infrastructure; 2) Repositioning CapEx (EUR83mn) – the group is heavily investing in the improvements of its IT infrastructure and rebranding; 3) Expected Investment (EUR5.7mn) – CapEx directed towards openings of the new hotels/rooms; As for the remaining years we estimated in detail Capex for 2016 and 2017 and we assumed a 5 percentage of Total Revenues Sales for 2017 onwards - as suggested in the 2015 Results Presentation. For this period since the repositioning plan will end, Capex will only come from Maintenance and Investment.

Expected investment is a small part of the total, but it bodes well with the openings of the rooms (figure 9). As for the future, we assume the number of rooms will remain flat after the group finishes its expansion in 2019. We discuss CapEx further in the D&A part of the report.

Figure 9. Room Openings and investment related to the room openings



Source: Company Data

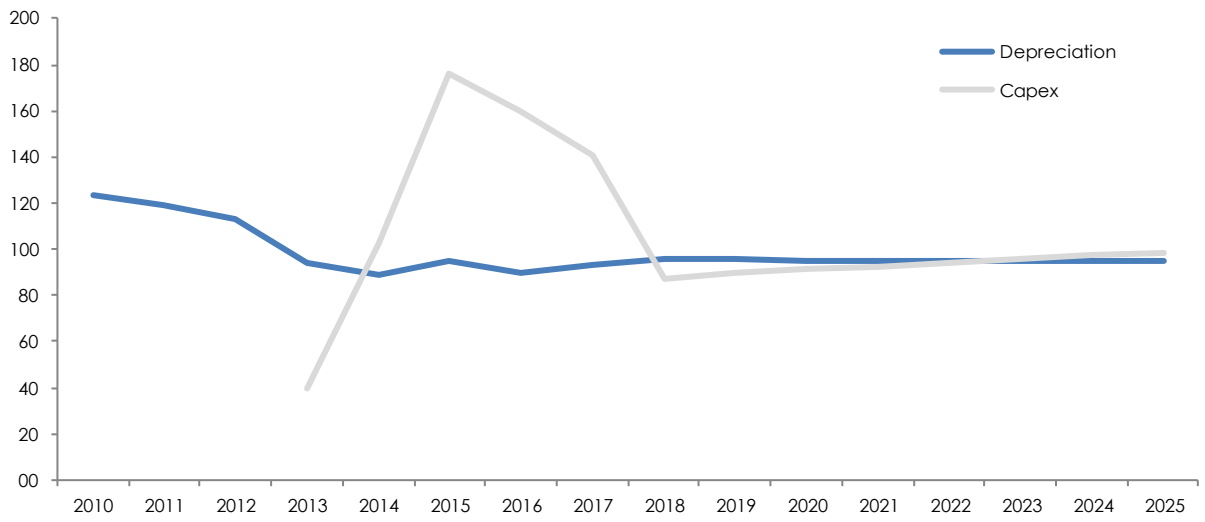
4.3.1.5. Depreciation & Amortization

NH Hotel Group does not distinguish the difference between the depreciation and amortization in their financial statements. The reason for this mainly stems from the fact that both the intangible assets and the goodwill are valued at the lower of the fair values. Basically, the group conducts tests of the fair value for those assets every year and impairs them, if considered necessary. As for the depreciation, tangible assets are valued at their acquisition cost less the accumulated depreciation and impairments. We allocate the PPE to each of the

[35] The CapEx estimates were taken from the 2014 management report

Business Units using the owned and finance leased rooms. Then we see the historical levels of the depreciation and compare to the PPE. Generally the relationship holds well across the ultimate five years of the historical data. Therefore we assume the levels will remain in the future. As for the PPE, we adjust it each year for the respective depreciation and Capital Expenditures. You may see the depreciation schedule in the Annex. As for the period of stable growth, on figure 10 we depict the relationship of the D&A and the CapEx. The two values differ slightly in the last year of the explicit period, yet they are converging, which is important for our assumption of the period of stable growth.

Figure 10. Depreciation and Capex (EUR mn)



Source: Company Data

4.3.1.6. Net Working Capital

Looking at our balance sheet one can see the items in the current assets and current liabilities.[36] Because we are only considering the operating items (items needed to support the business operations or expected to be converted to cash in next 12 months) from the current assets we will only consider Inventories, Trade Receivables, Non-Trade Receivables and Other Current Assets. As for the Current Liabilities we will be referring to Trade and Other Payables, Tax Payables, Provision for contingencies and charges and lastly Other Current Liabilities. Deferred Taxes, althought non current, are still considered for the WC as they are part of the operating activity of the company.

Because NH Hoteles receives most of the proceeds upfront it is normal for the *Receivables* account to the be lower than *Payables*. Despite this fact, Receivables ammount still has a

[36] Appendix 8 and 9

considerable size, likely because of agreements company mantains with large corporations, in which there should be an open account. Regarding Inventory a sharp decrease is seen in past values due to the sale of Sotogrande Resort.

For the future we expect the working capital policy to maintain, since the company does not disclose any strategy for working capital management. For this analysis we will use 2015 trend. To forecast the inventory we compute Day Sales Inventory ratio using as a driver management costs per day. As for the other current assets (Receivables + Other Current Assets) the same reasoning was applied but this time we used Day Sales Oustanding considering Hotel Revenues. On the other side, the estimation of current liabilities items is done through Days Payables Outstanding using OPEX as an input.

Lastly, Deferred Taxes are considered as their net value. We will use this value's proportion to Total Revenues to forecast the future values. For the allocation of the NWC for each one of the business units we did a weighted average of the Own + Lease rooms for each one of the business units.

Table 15. Net Working Capital Changes

	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Δ NWC	40,0	-11,2	-6,7	-1,6	-3,3	-2,6	-2,3	-2,3	-2,4	-2,4	-2,5

Source: Company Data

4.3.2. Weighted Average Cost of Capital

Our core valuation model is the DCF Sum of the Parts of five different Business Units and it is important to estimate the appropriate discount rate for each of them. As NH Hoteles has significant amount of debt on its balance sheet, we believe the WACC would be the most appropriate discount rate. To estimate the WACC we first need to get three key inputs: Ke (cost of equity), Kd (cost of debt) and the capital structure (D/E) of the company. First we would like to show the final result of our estimation and then explain how we calculated each of the components. You can see the key estimates of the WACC in Table 16.

Table 16. Weighted Average Cost of Capital and its components

Business Unit	Ke	Beta*	Rf**	Rm***	Tax	Kd	WACC
BU Spain	10.0%	1.11	1.77%	7.4%	25.0%	6.00%	7.71%
BU Italy	9.9%	1.10	1.71%	7.4%	31.7%	6.00%	7.44%
BU Benelux	8.7%	1.23	1.10%	6.2%	25.0%	6.00%	6.94%
BU Central Europe	7.7%	1.13	0.90%	6.0%	29.5%	6.00%	6.21%
BU LatAm	13.5%	0.55	6.30%	13.1%	24.8%	6.00%	9.72%

Note: Values for Units are weighted by the amount of rooms and respective country metrics; *Weekly 5YR Beta; **10Y government bond yield; ***according to Damodaran (1st January 2016);

Source: Company Data

4.3.2.1. Cost of Equity (Ke)

We use the Capital Asset Pricing Model to estimate the cost of equity for each of the units within the NH Hoteles Group. The inputs of the CAPM are the risk-free rate, market risk premium (MRP) and the respective beta. For the risk-free rate we use the yield of the 10Y government bonds. We get the yields for each of the major countries within the NH BU's and then make a room-weighted average. In case of BU Benelux and BU Central Europe we adjust the current bond yield by making an average of the current yield and the inflation target of the ECB (2.0%) as we believe the yields would follow inflation patterns in the future. MRP is the risk premium suggested in the literature[37]. The reason we use literature MRP comes from the difficulty in estimation. When we look at the excess return of some of the equity benchmarks over the respective Rf they are negative. To get the beta we use weekly returns of NH Hoteles. We then regress them on the respective equity benchmark for each country[38] and make an adjustment using the formula (beta=2/3*(Raw Beta) + 1/3) due to the mean reversal properties of the beta[39].

4.3.2.2. Cost of Debt (Kd)

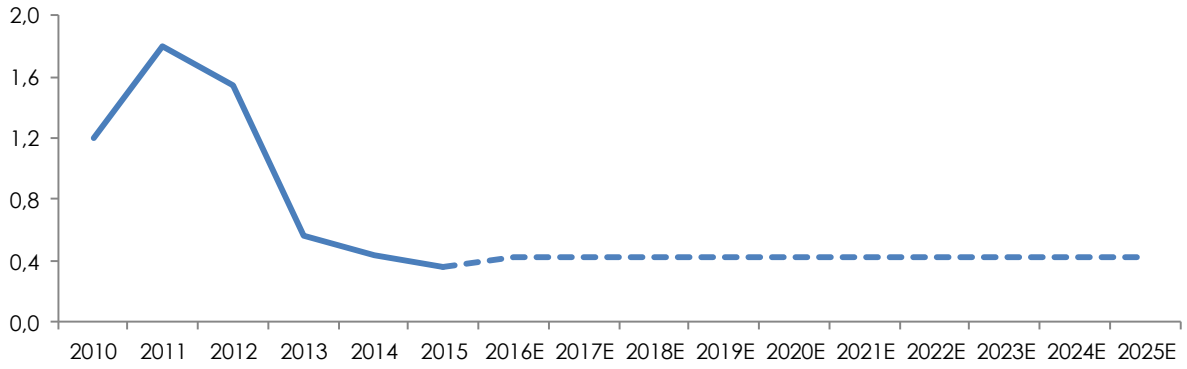
The only problem with estimating WACC for each BU lies within the debt of the company. Core operations of the NH Hoteles are located in Europe and its debt is either EUR loans from the banks or EUR denominated bonds. Moreover, it is impossible to allocate debt to each of the business units as such information is not provided by any of the company reports. To overcome this issue, we assume that debt/equity ratio is the same for each of the Business Units and that cost of debt is also the same. As for the cost of debt, we take the interest expense over the total amount of debt on the company's balance sheet. We then adjust the Kd for the effect of Tax using the room-weighted tax rates for each of the BU. The tax rates are taken from the company reports.

4.3.2.3 Capital Structure

The Net Debt to Equity ratio of NH Hoteles has significantly reduced in the last couple of years. We believe that it will increase slightly in 2016 as company will disburse some of its cash for the Capital Expenditure needs and then it will maintain constant at ca. 42%. Such a ratio is quite healthy and given that debt usually reduces the cost of capital it is natural the company may want to keep debt on its balance sheet.

[37] We use Aswatch Damodaran data as of Jan16
[38] For Latam countries we adjust for the FX movements.
[39] J. Ohlson and B. Rosenberg, "Systematic Risk of the CRSP Equal-weighted Common Stock Index: A history Estimated by Stochastic-Parameter Regression", Journal of Business, vol. 55, no.1, 1982

Figure 11. Net Debt to Equity ratio



Source: Company Data

4.3.3. DCF Analysis

In this subsection we explain the path between making the operational assumptions and forecasts and achieving the value of the company. Our core model is DCF and we use equation 7 in order to achieve our enterprise value. To reach the value of the company we first estimate the values of each Business Unit. The cash flows differ in the first 10 years of the forecasted period, yet they tend to converge towards the stable growth and we estimate the period after 2025 as the Terminal Value. The terminal growth rate we use for each of the Business Units differs. This is natural as each of the Business Units consists of various countries that have different economic conditions and have uneven growth prospects for the future[40]. You can see the key Terminal Value assumptions and FCFF for the explicit period in the table below.

Table 17. FCFF and TV assumptions by Business Unit

FCFF	2015	2016E	2017E	2018E	2019E	2020E	Sum	TV	WACC	g
Spain	-18.7	4.1	13.1	27.6	28.7	29.4	103.0	506.0	7.71%	1.8%
Italy	6.3	23.9	27.7	38.5	39.4	40.1	169.6	722.8	7.44%	1.8%
Benelux	13.7	24.9	25.4	38.8	40.4	41.6	171.2	792.0	6.94%	1.6%
Cent. Europe	-15.5	6.9	13.7	25.1	27.4	29.1	102.2	641.1	6.21%	1.6%
Latin America	-1.9	12.2	18.8	30.1	33.2	34.5	128.8	489.3	9.72%	2.5%

Note: we show the first five years of our ten year forecast, the rest can be found in appendix
Source: Company Data

One may note that the growth rate assumptions for the terminal value are quite conservative. Theoretically terminal growth rate is a function of various quantitative and qualitative variables[41]. Most of these variables are difficult to identify and we make simplifying assumptions in order to estimate our terminal growth rates. For the first four Business Units most of the countries with the biggest number of rooms are the ones from the Euro Zone.

[40] According to IMF world economic outlook from January 2016
[41] According to Investment Valuation, Tools and Techniques for Determining the Value of Any Asset by Aswath Damodaran, a company's LTG rate should be "determined by a number of subjective factors—the quality of management, the strength of a firm's marketing, its capacity to form partnerships with other firms, and the management's strategic vision, among many others."

According to the IMF WEO growth in the Euro Zone is not expected to advance any further than 1.7% in the foreseeable future. Italy and Spain were heavily penalized by the recent sovereign debt crisis and may see a higher growth due to the economic recovery, but Central Europe and Benelux represent more mature economies, thus we believe growth will be slightly lower that the first two. In Latin America the GDP is expected to grow at around 3.0%, but due to the emerging nature of this region, there is also a risk growth may quickly disappear and even go to a recession (as we can recently observe in Brazil). Consequently we believe a 2.5% growth rate should be appropriate for the region. After we estimate the Terminal Value we discount it and all the FCFFs from the explicit period with the WACC presented earlier. The enterprise value achieved is EUR2,605bn. To reach the price per share we first need to subtract Net Debt (EUR741mn) and divide by the number of shares outstanding (350.7mn). The price per share is EUR5.32. With a current price of EUR4.29 it implies a 24.1% potential upside and results in a BUY recommendation.

4.3.4. Sensitivity Analysis

The target price that we estimated earlier can be presented as a function of several variables.

$$Target\ Price = f(FCFF; WACC; g; t; \frac{D}{E}; \#of\ shares)$$

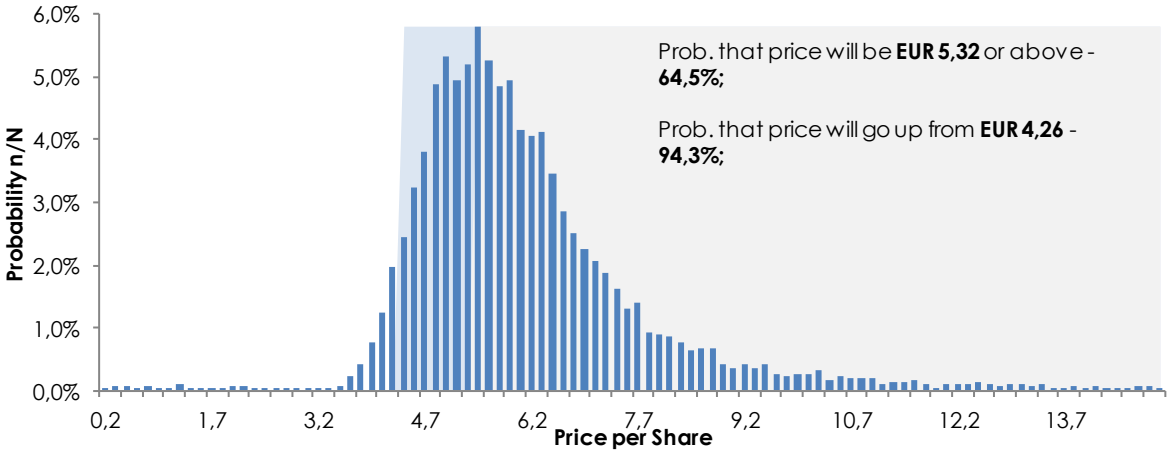
Where,
$FCFF$ = Free Cash Flow to the Firm;
$WACC$ = discount rate,
g = growth rate of FCFF
t = time;
D/E = capital structure of the firm;
$\#\ of\ shares$ = number of shares outstanding;

All of the abovementioned variables are a subject to our assumptions and thus present an uncertainty. However, this uncertainty can be tackled, or at least quantified with the help of the probability theory. In case of NH Hoteles, almost 60% of our base case valuation is derived from the terminal value of each Business Unit of the group. Thus, to simplify the analysis of the probabilities we have decided to focus on two key variables that drive terminal value and assume various scenarios for them[42]. To generate various scenarios we use Monte Carlo simulation, assuming the terminal growth rate and WACC are normally distributed. We acknowledge that this is a simplification, but we find it hard to estimate the actual distribution

[42] We assume various scenarios with the help of Monte Carlo simulation. We define the mean and standard deviation for the terminal growth using the historical GDP growth of country members and the respective standard deviation; As for WACC, we look for the WACC of NH Hotel peers, yet a broader set than the ones selected for the multiple analysis to have at least 24 observations.

for each of the variables. With the help of cross sectional analysis, we estimate the standard deviation and the mean that we then use to forecast various scenarios. We simulate ten thousand different scenarios of WACC and g for all the five Business Units and then use the outcomes to compute the theoretical price. As you can see from figure 12, the likelihood that the price will reach our target (EUR5.32) and be above is 64.5%, while the likelihood that price will move up from its current (EUR4.26) is 94.3%.

Figure 12. Distribution of the NH Hoteles price under simulated assumptions for the terminal Growth rate and WACC



Source: Thomson Reuters, Company Data

4.4. Relative Valuation

In this section we will be using the relative valuation to cross check the results of our DCF model. We have discussed the theory behind the relative valuation earlier in this paper, yet we believe it is important to highlight the key difference and briefly explain the key variables behind our analysis. Relative valuation becomes very useful in cases where estimating inputs for the DCF is difficult (i.e. private companies or companies that recently became public). One of the key assumptions is that the company can be valued based on the value of its peers. Consequently, choosing the right peers is a crucial part of the relative valuation. Therefore, we will now explain the process of peer selection in a greater detail.

4.4.1. Peer Group

We start our process of estimating the peer group by getting all the publicly traded hotels, with part of their business in Europe. The initial list consists of 54 companies that can become the potential peers of NH Hoteles. However, even though the nature and the focus of their business are similar to our company, there are some differences in terms of growth, capital structure, size and risk that we need to consider. In order to do so, we select five variables:

1) D/E – Capital Structure; 2) Market Cap – size of the company; 3) RoE – profitability; 4) Expected Revenue growth (we estimate it as 2016 Revenues/2015 Revenues) and 5) Beta to the market – a measure of risk.

All of this data is available via Thomson Reuters and we use it for all the companies except NH Hoteles, where we estimate most of the inputs during our DCF analysis. We then use cluster analysis to narrow that list and stay with the most comparable companies based on the five variables mentioned above. Below you may see the list of the companies that were selected as the appropriate peers for the relative valuation of NH Hoteles.

Table 18. NH Hoteles Peers

Peers	Mkt. Cap.	D/E	RoE	Rev g	Beta
Accor	9.03	71.61%	6.93%	2.23%	1.62
Inter Continental	9.32	62.30%	11.22%	1.76%	1.27
Whitbread	6.91	42.45%	13.62%	3.80%	1.52
Host Hotels & Resorts	12.5	55.60%	7.71%	2.10%	1.17
Marriot International	17.96	35.00%	14.32%	-1.80%	1.36
Starwood Hotels	12.8	25.86%	8.63%	3.12%	1.83

Note: we use 5y weekly adjusted beta; Mkt Cap is in USD (the way we took it from Thomson Reuters); Depending on the country of the company we use local benchmarks to estimate the beta;

Source: Thomson Reuters

4.4.2. Multiples

Considering the fact that our company is leveraged[43] we decided to use the EV/EBITDA ratio to estimate the value of NH Hoteles. We take the trailing and forward looking EV/EBITDA ratios for our peers from Thomson Reuters, you may see them in the table below.

Table 19. EV/EBITDA Ratio for peers of NH Hoteles

Peers EV/EBITDA	2010	2011	2012	2013	2014	2015	2016E	2017E
Accor	9.6	7.1	6.7	7.7	8.9	9.5	8.6	7.7
Inter Continental	10.6	9.6	11.0	12.3	14.9	11.0	10.9	9.7
Whitbread	7.9	9.1	8.5	9.5	12.2	12.3	12.6	11.0
Host Hot. & Res.	16.9	14.7	13.3	13.2	14.4	12.2	11.3	10.8
Marriot Int.	12.5	13.4	13.2	13.4	14.1	13.5	13.2	12.3
Starwood Hotels	12.9	11.6	9.5	10.8	13.5	11.3	11.5	9.7
Peer Avg.	**11.7**	**10.9**	**10.4**	**11.2**	**13.0**	**11.6**	**11.4**	**10.2**
Min	**7.9**	**7.1**	**6.7**	**7.7**	**8.9**	**9.5**	**8.6**	**7.7**
Max	**16.9**	**14.7**	**13.3**	**13.4**	**14.9**	**13.5**	**13.2**	**12.3**

Source: Thomson Reuters

[43] the traditional P/E ratio as it disregards the capital structure of the company

Based on the average peer group EV/EBITDA value we estimate the EV for NH Hoteles using the Trailing (2015) and Forward Looking (2016) EBITDA that we already estimated in the DCF analysis. You may see the results in the table below.

Table 20. EV/EBITDA Ratio for peers of NH Hoteles

	Trailing 2015			FWD 2016			Average		
Indicator	**Min**	**Avg**	**Max**	**Min**	**Avg**	**Max**	**Min**	**Avg**	**Max**
EV/EBITDA	9,50	11,63	13,50	8,60	11,35	13,20	9,05	11,49	13,35
EV	1946,0	2382,9	2765,3	2.260,7	2.983,6	3.469,9	2.103	2.683	3.118
Mkt. Cap.	1305,1	1742,0	2124,4	1.478,8	2.201,7	2.688,0	1.392	1.972	2.406
Price	3,73	4,97	6,07	4,22	6,29	7,67	3,97	5,63	6,87

Source: Thomson Reuters

As you can see, the most comparable value to the one we get with the help of the DCF model is the Trailing 2015 (EUR4.97), while the FWD 2016 value appears to be a more optimistic one. This contradicts the theory[44], yet we think the reason lies within the expectations the analysts incorporate in their forecasts. Most of the times they are more optimistic regarding the future performance of the company they analyze[45] and this may result in expectations of higher multiples. Moreover, even though the peers we have selected are similar to NH Hoteles, they still differ geographically, within the capital structure, profitability and even growth. The trailing multiple (2015) does not incorporate the analyst's optimism bias and thus may be the best to estimate the value of the company. If we compare it with the value we have reached using the DCF they are quite similar (EUR5.32), yet peers offer a more conservative price. According to our estimates, NH Hoteles trades at an FWD EV/EBITDA multiple of 9.9, which is around 15% below the peer group mean.

[44] Liu et al. (2002) say that forward looking multiples give a better proxy for a firm value because they incorporate the expected growth;
[45] Sherbina A. "Analyst Disagreement, Forecast Bias and Stock Returns", HBS 2004

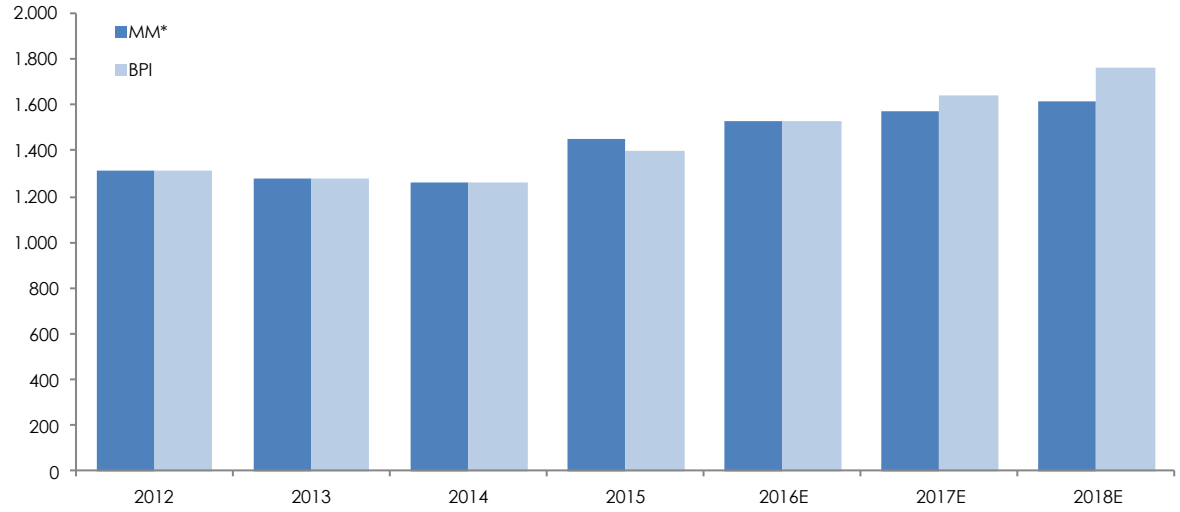
5. Comparison with the BPI report

The report we chose to use for the comparison purposes was the one issued by BPI in January 2016. The reason for choosing this report lies within the availability of ones. The ones that are publicly available were simply outdated and this one was the closest to our valuation date. Along with this, it incorporates the 9M results of 2015 and so far there were no reports published that would consider 12M results issued recently. The report has a Neutral recommendation with a target price of EUR5.25. Despite the relative upside estimated at the time of the publication, analysts consider high risk for the stock.

If we compare the target price of BPI with the one estimated in this paper, we can see that they do not differ that much (EUR5.21 vs. EUR5.25). Nevertheless, we believe it is important to explain why such a divergence occurs.

The first and the most obvious reason lies within the valuation methodology. We use a DCF approach, while BPI analysts use a mixture of two DCF and Net Asset Value (NAV) approach. The NAV approach is widely used in valuing companies with high amount of tangible assets and basically assumes the difference of the gross value of assets less the liabilities as the value of the firm. As NH Hoteles generate a continuous stream of cash flows we believe the DCF method is more appropriate because the idea of firm valuation is to estimate the present value of the cash flows the business will be able to generate in the future for its shareholders.

Figure 13. NH Hotel Revenues MM* vs. BPI



*MM – Manuel Magalhães; For 2015 BPI revenues are estimated.
Source: BPI, Company Data

BPI provides both estimates the DCF and NAV. For the DCF the fair value (FV) stands at EUR5.51, which implies a bigger difference with our FV, comparing to the average of DCF and NAV. Thus we would like to see where this difference comes from (ca. 4%) by assessing

the key assumptions behind the model. We start by looking at the core input of any financial statement forecasts – the revenues. Even at this level, you may see that the assumptions by the BPI analysts are more optimistic than the ones we implement (see figure 13).

Aside from different assumptions of the revenue growth, BPI's terminal growth rate estimates are higher than the ones we use. From the report we were able to see that the TV growth for Spain and Benelux stood at 2.0%, while we assume a 1.4% and 1.2% respectively. One might argue that our assumptions may be too conservative, but we believe they make sense as the NH Hoteles is not a high growth company and will reach its maturity after the explicit period. The most appropriate proxy for long-term growth of the mature companies would be the expected GDP growth plus inflation, which according to IMF will be ca. 1.7% for the Euro Zone in the coming years. Together with this, currently there is no inflation and most of the economic think tanks expect it to remain low in the developed economies. Consequently, we believe a 2.0% terminal growth rate is slightly more optimistic than the reality. In conjunction we can see the assumptions behind the BPI's DCF are more optimistic than the ones presented in this thesis and believe this clearly explains the difference between the values.

Conclusions

This dissertation presents an overview of the key techniques used by professionals and amateurs all over the world to estimate the value of a firm. We narrow down all the possible approaches to the ones that fit NH Hoteles the most and present the logic behind our filtering process. After analyzing the company, its history and the industry it operates on we reach a conclusion that the DCF methodology is the one that suits this company better. Moreover, NH Hoteles has debt on its balance-sheet, which makes the application of equity-linked DCF methods inappropriate in our view.

The fair value we reach is broadly in line with the market consensus and, what is more important, to the most recent analyst estimates, which we discuss while comparing our analysis with the one carried by BPI. We also conduct a sensitivity analysis, generating scenarios for the terminal growth rate and the WACC and see that the likelihood of the FV to be above our central case is 64.5% and 94.3% if we consider current market price as the starting point. Such an analysis supports our BUY recommendation.

DCF valuation implies making various assumptions and we check our results for consistency using relative valuation. The results differ, yet our FV falls between the ones reached using forward and backward looking multiples. Comparing to the current market price, we see a potential upside of 25% in the medium-term. The reason the market price deviates from our can be explained by the fact that it represents a quintessence of various analysis and results from many assumptions made by the market participants regarding the company. Moreover, there are external factors like investor sentiment, liquidity conditions, political risks and other that cannot be incorporated (at least in this paper) into the analysis.

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APPENDIX

Appendix 1 – Additional Literature Review

1) Valuing the Equity

1.1) Dividend Discount Model (DDM)

The dividend discount model assumes that that value of the equity is the present value of expected future dividends. It is the most simple and straightforward methodology we can use. It is based on the strictest sense that the only cash you receive from a firm when you buy traded stocks, is the dividend received in the holding period plus the expected price you will receive when you sell the stocks. Since this expected price is itself determined by future dividends, the value of a stock is the present value of dividends through infinity. The discount rate we will use will be the cost of equity (K_e), similar to what we used to compute the PV of FCFE.
The general formula is then given by:
(4)

$$Value\ per\ share\ of\ Stock = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1+K_e)^t}$$

Where,
E(DPS)= Expected dividends per share in period t
K_e = Cost of Equity

1.2) Free Cash-Flow Equity Vs Dividend Discount Model

Although DDM is a very easy and simple way to come up with a valuation, nowadays we do not use it that often as it can be imprecise and became outmoded. A few examples can be given: "First, many corporations pay no, or very low, cash dividends". Using dividend discount models to value these companies puts the analyst in an awkward situation. Second, "dividend payments are at the discretion of the corporation's board of directors. As such, they may imperfectly signal the company's long-run profitability. Some corporations clearly pay dividends that are substantially less than their free cash flow, and others pay dividends that are substantially more. Finally, dividends are the cash flow going to shareholders, and free cash-flow to equity is the cash-flow available to shareholders if they controlled the company. If a company is being analyzed as a takeover target, free cash flow is the appropriate cash flow measure"[46]

[46] Stowe et Al. (2007)

Because of this, although we can still use DDM valuation model, in valuing firms for takeovers or in valuing firms where there is a reasonable chance of changing corporate control, the value of the FCFE provides the better estimate of value

2) Valuing the Firm

2.1) Adjusted Present Value Method (APV)

This model was proposed by Myers (1974) and follows Modigliani and Miller teachings that when considering a market with no taxes the financial structure of a company will not affect the value of its economic assets and that nothing but market imperfections (such as taxes and distress costs), affect enterprise value.

Basically, when valuing a company using the APV, we explicitly separate the unlevered value of operations (V_u) from any value created by financing, such as tax shields (Vts). For a company with debt (D) and equity (E), this relationship is as follows:

(8)

$$V_u + V_{ts} = D + E$$

This value created by financing can be either due to the effect of "values of interest tax shields, costs of financial distress, subsidized financing, hedges or issue and other costs".[47] In this analysis, however (similarly to what is done in almost every other APV valuations), we will just focus on the first two. We can observe these two effects because: debt financing reduces the amount of taxes paid, but it also increases the bankruptcy risk that needs to be considered.

We divide this valuation into three steps, accordingly to the formula below:

(9)

$$Value\ of\ the\ Firm = Value\ of\ Firm\ as\ if\ 100\%\ Equity\ financed \quad (1)$$
$$+$$
$$PV\ of\ Debt\ Interest\ Tax\ Shields \quad (2)$$
$$-$$
$$Expected\ Bankrupcy\ Cost \quad (3)$$

Value of the Unlevered Firm (1)

The first step in this approach is the estimation of the value of the unlevered firm.

(10)

$$Firm's\ Unleverd\ Value = \sum_{t=1}^{n} \frac{FCFF_t}{(1+K_u)^t} + \frac{TV_n}{(1+K_u)^n}$$

[47] Luerhman, (1997)

Where,

$FCFF_t$= Free cash flow to the Firm generated by the company in the period t.

TV_n= Terminal value of the company in the year n.

K_u = Unlevered Cost of Equity.

Present Value of Tax Shields (2)

When calculating this value there are three major obstacles we face. According to Damodoran[48] they include: (1) what tax rate we should use and should vary along time; (2) should we use fair or book value when considering debt and should its value vary along time; (3) finally, perhaps, the most controversial, which discount rate to use.

The general formula is given below:

(11)

$$PV\ Interest\ Tax\ Shields = \sum_{t=1}^{t=\infty} \frac{Tax\ Rate_t * Interest\ Rate_t * Debt_t}{(1+r)^t}$$

If we assume all these inputs will be constant over time that the appropriate discount rate is the cost of debt (The interest rate) we can simplify the formula to:

(12)

$$PV\ ITS = \frac{Tax\ Rate * Cost\ of\ Debt * Debt}{Discount\ Rate}$$

However, which discount rate to use is far from clear. The finance literature does not provide a clear answer about which discount rate for the tax benefit of interest is theoretically correct.[49] Myers (1974), who introduced the APV, says we should discount the tax savings at the cost of debt (K_d) as he states the risk of the tax savings arising from debt is the same as the risk of debt. In turn, Milles and Ezzel (1980), state that we should use as discount rate K_d for the first year and K_u for the subsequent years, assuming company as a fixed debt target (D/V). According to Harris and Pringle (1985)[50], we should discount the tax shields at K_u, the unlevered cost of equity, as the interest tax shields have the same systematic risk as the firm's underlying cash flows. Luerhman (1997)[51] says "tax shields are a bit more uncertain and so deserve a somewhat higher discount rate", so according to him we should use a discount rate a bit higher than the cost of debt.

[48] Damodaran, (2007)
[49] Copeland et al., (2000)
[50] Harris and Pringle, (1985)
[51] Luerhman, (1997)

Apart from the problems with choosing the right discount rate, Fernández (2002, 2003, 2004)[52], states that the value of debt savings is not equal to the present value of the tax shields and should be instead calculated as the difference between the present value of the unlevered firm and the value of the levered firm. Recently, Coopera and Nyborgb (2006)[53], contradicted Fernández paper and proved that the value of the tax savings is, indeed (as expected), the present value of the tax savings from interest.

Expected Bankruptcy Costs (3)

Now we have seen the benefits of adding leverage to the company's capital structure it is time to see as well its downsides. According to Damodoran the present value of the expected bankruptcy costs follows the formula:

(13)

$$PV\ of\ Expected\ Bankrupcy\ Cost = (Probability\ of\ Bankrupcy) * (PV\ of\ Bankrupcy\ Cost)$$

First, the most used method to calculate the probability of default and the one we will be using is to estimate a bond rating for each level of debt and use the empirical estimates of default probabilities for each rating (Appendix). An alternative method is to use a "statistical approach, such as a profit to estimate the probability of default, based upon the firm's observable characteristics, at each level of debt".

Secondly, we have to calculate PV of the bankruptcy costs. This is hard to compute as the greater amount of the impacts comes from indirect costs. Indeed, a lot of studies show this: Warner (1977)[54] states that the expected direct cost of bankruptcy is unambiguously lower that the tax savings on debt; and Haugen and Senbet (1978)[55] proved the Insignificance of Bankruptcy Costs to the Theory of Optimal Capital Structure. Moreover, as Damodoran (2007)[56] states, "firms that are viewed as distressed lose customers (and sales), have higher employee turnover and have to accept much tighter restrictions from suppliers than healthy firms". In the end, those indirect costs may become the deciding factor for the company's survival. Often valuation bases bankruptcy costs on research done about the amplitude of these costs on actual companies. Studies have shown direct costs amount on average to 5% of the

[52] Pablo Fernández, (2002), (2003), (2004)
[53] Coopera and Nyborgb, (2006)
[54] Warner, (1977)
[55] Haugen and Senbet,(1978)
[56] Damodoran, (2007)

enterprise value (Warner, 1977), while indirect cost account from 10% up to 23% (Andrade and Kaplan, 1998)[57].

2.2) Free cash flow Firm (FCFF) VS. Adjusted Present Value (APV)

Luerhman in its two papers from 1997 exalts the greatness of APV compared to the WACC. Like he refers APV more than just a valuation tool, it is a real managerial tool, as it analyzes not only how much an asset is worth but also where the value comes from. It gives you additivity, as you can now break your problem into pieces and analyze one by one, giving managers important information about each one of those pieces. Flexibility is also a great advantage of these model as if in the future we want to account for more effects we can just add them as separate terms.

According to him WACC has major flaws. Firstly, because it assumes the capital structure will remain constant it can only be used in simples and static capital structures: for instances, if the debt-to-value ratio increases and we do not accommodate them in WACC we will be understating the value of the firm, as tax shields will be actually higher than those calculated. Secondly, in order to conduct a rigorous valuation many other things like debt issue costs, subsidies, exotic debt securities or hedges, need to be constantly adjusted in WACC.

On the other hand APV has also its limitations. Many times a superficial analysis ends overstating the value of the company as financial distress effects are not considered. For a high leverage company bankruptcy costs weight more than the tax benefits of debt. To add to this, because income from stocks may be taxed differently, many times investors end up overestimate the net advantages of corporate borrowing.

To conclude, as stated by Damodoran, for complex, changing or highly leverage capital structure (for instance Leverage Buyout Companies - not NH Hoteles case) APV is much better. For all the other it does not matter much which method we use.

[57] Andrade and Kaplan, (1998)

3) Value Drive Formula

The value driver formula is given by:

$$Continuing\ Value_t = \frac{NOPLAT_{t+1} + \left(1 - \frac{g}{RONIC}\right)}{WACC - g}$$

Where,
$NOPLAT_{t+1}$ = *net operating profit less adjusted taxes in the first year after the explicit forecast period*
g = *Expected growth rate in NOPLAT in perpetuity*
$RONIC$ = *Expected rate of return on new invested capital*
$WACC$ = *Weighted average cost of capital*

Because perpetuity-based formulas rely on parameters that never change, use a continuing-value formula only when the company has reached a steady state, with low revenue growth and stable operating margins.

In addition, when estimating the continuing-value parameters, keep in mind the following technical considerations:

- *NOPLAT:* The level of NOPLAT should be based on a normalized level of revenues and sustainable margin and return on invested capital (ROIC). The normalized level of revenues should reflect the midpoint of the company's business cycle and cycle average profit margins.
- *RONIC:* The expected rate of return on new invested capital (RONIC) should be consistent with expected competitive conditions. Economic theory suggests that competition will eventually eliminate abnormal returns, so for many companies, set RONIC equal to WACC. However, for companies with sustainable competitive advantages (e.g., brands and patents), you might set RONIC equal to the return the company is forecast to earn during later years of the explicit forecast period.
- *Growth rate:* Few companies can be expected to grow faster than the economy for long periods. The best estimate is probably the expected long-term rate of consumption growth for the industry's products, plus inflation. Sensitivity analyses also are useful for understanding how the growth rate affects continuing-value estimates.
- *WACC:* The weighted average cost of capital should incorporate a sustainable capital structure and an underlying estimate of business risk consistent with expected industry conditions.

4) Contingent Claim Valuation

Till this point all the valuation methodologies we have seen do not incorporate a very important aspect of everyday companies: managerial flexibility. When faced with changes in the economic environment managers adjust their strategy – they can scale back or abandon an investment or expand or extend it[58].

Contingent Claim or Option Pricing Theory is therefore considered a powerful tool in investment intensive industries where the development process are grouped into stages that are explored or sideline based on earlier phrases' results[59]. Koller et al. 2010 also states that flexibility is important only in cases where management responses to specific events may change the course of the whole company.

That is not the case of NH Hoteles and therefore we will not use this methodology. Furthermore, to add to this, as pointed by Fernández[60], option valuation is one of the most technical and complex valuation frameworks: estimation of volatility is arbitrary, correct estimates are hard to achieve and risk free should not be the discount rate, as even if we secure a project with an option that does not make it riskless.

[58] Koller et al., (2010)
[59] Leslie and Michaels, (1997)
[60] Fernández, (2013)

Appendix 2 – Additional information on company overview

1) NH Hoteles History

Foundation

What today is the third largest Hotel Group in Europe and among the top 25 Hotel Chains in the World with almost four hundred hotels and almost 60000 rooms in 29 different countries around Europe, America and Africa, was started in the year 1978 by a 29 year old entrepreneur Antonio Catalán. Spain was making its way through almost four decades of Franco's dictatorship and Antonio knew foreign investment would follow as the Spain's investment climate was improving rapidly. Bearing this in mind he opened his first hotel in the city of Pamplona focusing on the business travelers. In 1988, 10 years later, it got its first reference shareholder, COFIR S.A. that acquired 33.5 percent of the group. With new money coming from Investors, the Group saw a huge growth and by 1994 already had 54 hotels all over Spain.

Wave of acquisitions - expansion

In 1996, COFIR decided to focus only on the hotel sector. They divested other parts of their business and took over the company, adopting its name: NH Hoteles S.A.[61]

The new century brought international expansion to the group: company acquired 20% of the Italian group Jolly Hotels, entered Mercosur market with Argentina, Uruguay and Chile openings; and made a successful takeover bid over Sotogrande S.A. that added to the prior stake owned by COFIR and was now 91.5% owned by the Group.

From 2000 to 2002 NH made several acquisitions such as the Dutch group Kransnapolsky[62], the Chartwell Mexican Hotel Chain and the German Astron Hotels chain.

Moving towards managing the portfolio

In the years that followed NH reorganized its portfolio by selling assets that did not fit in NH concept and entered new markets such as Portugal, Italy, Romania, UK and France.

In 2006, Group bought the remaining part of Sotogrande S.A. and settled a 3 year expansion plan for 2007 - 2009 to open further 18,000 rooms, targeting 6,000 rooms per year, and undergoing in a 250M€ capital increase for the purpose.

In the meantime subprime crisis had started and by the end of 2008 six economies, where NH had its footprint recorded negative growth. This forced the management to reconsider their expansion plan and slow it down, at least until the economic headwinds fade away. Nevertheless, the group already saw a significant expansion by the time. They added a total of 10,433 rooms, including the takeover and merger of Jolly Hotels, an Italian group.

[61] 1996, Wall Street Journal
[62] 2000, El País

Scaling back and rationalizing

In 2009 the rationalizing and cost cutting plan continued – mostly by freezing capex, sales of the non-strategic assets, optimizing costs, refinancing and renegotiation of rents, Nevertheless, NH Hoteles merged operations with Hesperia Hotel Group and created a procurement platform Coperama - to merge the purchased volume among members and strengthen their bargaining power over suppliers.

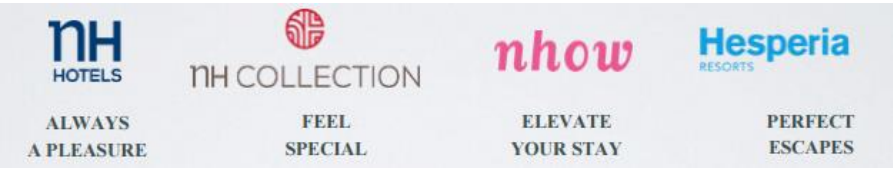
In 2013, after years of rationalizing, company went through a restructuring process: HNA Group entered in the capital of the Group (234M€), Hotel Krasnapolsky was sold (142M€), and Group's debt was refinanced. Simultaneously, NH announced a 5 year strategic plan for the period from 2014 - 2018 with a series of initiatives aimed at improving group's performance and reducing its cost structure, which led to significant increase in the debt levels in the past.

In the last two years, and although the plan was structured in a way the three first years were dedicated to the development of the new value proposition and 2017 and 2018 the years were company would actually drive its organic growth, the Group saw major improvements. Much of them were helped by the improving economic conditions: In 2014 the group achieved a 76% improvement in net results and 3Q 2015 results could not have been better, with 9M EBITDA growing 46.7% compared to last year´s 9M results. This increase was mainly due to the increase of RevPar, mostly supported by the hikes of ADR, a signal that this new higher segmentation is being well accepted by the market. Related to portfolio changes two major events must be referred: first, the sale of Sotogrande Real Estate Investment for 225M€, exiting all the real estate investments within the Group; and second, the purchase of the Colombian chain Hoteles Royal S.A.[63] that added a total of 20 new hotels in Colombia and Ecuador.

2) NH Hoteles Brand Architecture

To increase consumer awareness and change NH brand in a budget-friendly way a lot had and still has to be done. Along this line, supported by a big marketing investment, the Group structured its portfolio under new brand architecture. Currently the group has divided its offer into four key segments:

Figure 4. Segmentation of the NH Hotel Group proposition



Source: Company Data

[63] 2015, Reuters

NH Hotels - midscale three and upscale four-star urban hotels for guests who demand an excellent location with the best price/quality relationship.

NH Collection - for upper upscale premium hotels located in major capitals across Europe and America. This category seeks to surprise guests by surpassing their expectations.

Nhow - for upper upscale design hotels that are unconventional and cosmopolitan, each with a unique personality in major international cities.

Hesperia Resorts - upscale family resorts for holiday hotels located in privileged surrounding

Appendix 3 – Additional information on industry overview

1) External risk factors

We believe it is important to identify the key risk factors outside of the ones that can be directly linked to the economic growth of the countries within the scope of our analysis. There are three key external risk factors that we would like to highlight as we believe they may cause significant impacts on the industry in case they materialize.

Terrorist Attacks

Terrorist attack is unfortunately very likely till the end of our analysis. In case it happens it will of course affect majorly the tourism and hotel industry, especially those regions with the biggest likelihood of becoming a target.

Natural Disasters

Natural disasters cannot be predicted and post-disaster tourism many times take years to recover from previous peaks.

Epidemic Diseases

An epidemic disease is a major driver for tourism inbounds. Indeed, as a recent article from New Work times refers[64], Zika Virus is already affecting the travel industry, with many vacationers rethinking their trips. The evolution of the Zika will be crucial for many South America destinations and in the future other epidemics may follow.

[64] 2016, New York Times

Appendix 4 – Additional information on the DCF

1) Room Growth – Total by Business Unit

	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total	**57.790**	**59.838**	**61.020**	**61.861**	**62.314**	**62.314**	**62.314**	**62.314**	**62.314**	**62.314**	**62.314**
BU Spain	**17.842**	**18.176**	**18.276**	**18.376**	**18.376**	**18.376**	**18.376**	**18.376**	**18.376**	**18.376**	**18.376**
Spain	17.510	17.844	17.844	17.844	17.844	17.844	17.844	17.844	17.844	17.844	17.844
Portugal	272	272	372	472	472	472	472	472	472	472	472
Andorra	60	60	60	60	60	60	60	60	60	60	60
BU Italy	**8.281**	**8.281**	**8.471**	**8.662**	**8.662**	**8.662**	**8.662**	**8.662**	**8.662**	**8.662**	**8.662**
Italy	8.281	8.281	8.471	8.662	8.662	8.662	8.662	8.662	8.662	8.662	8.662
BU Benelux	**9.192**	**9.361**	**10.011**	**10.011**	**10.011**	**10.011**	**10.011**	**10.011**	**10.011**	**10.011**	**10.011**
Holland	6.709	6.709	7.359	7.359	7.359	7.359	7.359	7.359	7.359	7.359	7.359
Belgium	1.619	1.619	1.619	1.619	1.619	1.619	1.619	1.619	1.619	1.619	1.619
France	397	566	566	566	566	566	566	566	566	566	566
England	121	121	121	121	121	121	121	121	121	121	121
South Africa	198	198	198	198	198	198	198	198	198	198	198
Luxembourg	148	148	148	148	148	148	148	148	148	148	148
BU Central Europe	**12.628**	**13.637**	**13.637**	**14.037**	**14.240**	**14.240**	**14.240**	**14.240**	**14.240**	**14.240**	**14.240**
Germany	10.438	10.438	10.438	10.638	10.638	10.638	10.638	10.638	10.638	10.638	10.638
Austria	1.183	1.327	1.327	1.527	1.730	1.730	1.730	1.730	1.730	1.730	1.730
Switzerland	522	522	522	522	522	522	522	522	522	522	522
Czech Republic	0	577	577	577	577	577	577	577	577	577	577
Romania	83	161	161	161	161	161	161	161	161	161	161
Hungary	160	160	160	160	160	160	160	160	160	160	160
Slovakia	0	117	117	117	117	117	117	117	117	117	117
Poland	0	93	93	93	93	93	93	93	93	93	93
United States	242	242	242	242	242	242	242	242	242	242	242
BU Latin America	**9.847**	**10.383**	**10.625**	**10.775**	**11.025**	**11.025**	**11.025**	**11.025**	**11.025**	**11.025**	**11.025**
Mexico	1.866	2.094	2.286	2.386	2.636	2.636	2.636	2.636	2.636	2.636	2.636
Argentina	2.050	2.128	2.128	2.128	2.128	2.128	2.128	2.128	2.128	2.128	2.128
Dominican Republic	2.011	2.011	2.011	2.011	2.011	2.011	2.011	2.011	2.011	2.011	2.011
Venezuela	1.185	1.185	1.185	1.185	1.185	1.185	1.185	1.185	1.185	1.185	1.185
Uruguay	136	136	136	136	136	136	136	136	136	136	136
Colombia	1.700	1.700	1.700	1.700	1.700	1.700	1.700	1.700	1.700	1.700	1.700
Haiti	72	72	72	72	72	72	72	72	72	72	72
Cuba	220	220	220	220	220	220	220	220	220	220	220
Ecuador	112	112	112	112	112	112	112	112	112	112	112
Chile	495	561	611	661	661	661	661	661	661	661	661
Peru	0	164	164	164	164	164	164	164	164	164	164
Panama	0	283	283	283	283	283	283	283	283	283	283
Brazil	0	180	180	180	180	180	180	180	180	180	180

2) Depreciation and CapEx Assumptions

EUR mn	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Tangible Fixed Assets	1.667	1.737	1.784	1.776	1.770	1.766	1.763	1.762	1.763	1.766	1.769
Intangible Fixed Assets	173	173	173	173	173	173	173	173	173	173	173
Depreciation	95	90	93	96	96	95	95	95	95	95	95
% PPE	5,90%										
Capex	176	160	141	87	90	91	93	94	96	97	99

Spain	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PPE	514,8	533,3	543,5	540,2	537,5	535,5	534,0	533,0	532,6	532,6	533,0
Depreciation	30,8	27,7	28,70	29,25	29,07	28,93	28,82	28,74	28,68	28,66	28,66
	5,902 %	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%

Italy	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PPE	238,9	248,2	255,5	254,0	252,8	251,9	251,2	250,8	250,6	250,6	250,8
Depreciation	13,9	12,9	13,4	13,8	13,7	13,6	13,6	13,5	13,5	13,5	13,5
	5,90%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%

Benelux	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PPE	265,2	276,3	288,0	286,6	285,6	284,9	284,4	284,2	284,3	284,6	285,2
Depreciation	15,5	14,3	14,9	15,5	15,4	15,4	15,3	15,3	15,3	15,3	15,3
	5,90%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%

Central Europe	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PPE	364,4	379,8	388,7	387,6	387,2	387,2	387,5	388,2	389,2	390,4	392,0
Depreciation	21,3	19,6	20,4	20,9	20,9	20,8	20,8	20,9	20,9	20,9	21,0
	5,90%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%

Latin America	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PPE	284,1	299,5	308,6	307,1	306,5	306,1	306,0	306,2	306,7	307,4	308,3
Depreciation	13,4	15,3	16,1	16,6	16,5	16,5	16,5	16,5	16,5	16,5	16,5
	5,90%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%	5,38%

3) BU Spain income statement forecast

EUR mn	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Hotel revenues (Like for Like)	325,8	339,1	345,0	351,1	355,9	361,3	365,9	370,5	375,2	379,9	384,7
ow. Hotel Occupancy	214,3	228,9	232,9	237,0	240,3	243,9	247,0	250,1	253,2	256,4	259,7
ow. Catering	75,1	80,2	81,7	83,1	84,2	85,5	86,6	87,7	88,8	89,9	91,1
ow. Meeting rooms and others	15,8	19,3	19,6	20,0	20,3	20,6	20,8	21,1	21,4	21,6	21,9
ow. Rentals and other services	10,0	10,7	10,8	11,0	11,2	11,4	11,5	11,6	11,8	11,9	12,1
	315,2	339,1	345,0	351,1	355,9	361,3	365,9	370,5	375,2	379,9	384,7
Openings, Closings, Refurbishments and other	17,1	17,8	18,1	18,4	18,6	18,9	19,2	19,4	19,6	19,9	20,1
Total Revenues	342,9	356,8	363,1	369,5	374,6	380,2	385,0	389,9	394,8	399,8	404,9
Operating Expense	220,1	227,3	229,6	231,9	235,1	238,6	241,6	244,7	247,8	250,9	254,1
ow Staff Cost	115,62	118,98	121,84	124,73	126,63	128,53	130,46	132,42	134,41	136,42	138,47
# of employees	3.305	3.351	3.381	3.410	3.411	3.411	3.411	3.411	3.411	3.411	3.411
ow Direct Management Cost	104,44	108,34	107,76	107,14	108,45	110,09	111,18	112,28	113,39	114,51	115,63
Openings, Closings, Refurbishments and other	13,68	14,24	14,49	14,75	14,96	15,19	15,38	15,57	15,77	15,97	16,18
Total Opex	233,73	241,55	244,10	246,63	250,04	253,81	257,02	260,28	263,57	266,90	270,28
Gross Operating Profit	109,1	115,3	119,0	122,9	124,5	126,4	128,0	129,6	131,3	132,9	134,6
Openings, Closings, Refurbishments and other	3,38	3,52	3,58	3,63	3,68	3,73	3,78	3,83	3,87	3,92	3,97
Lease payments and property taxes	59,73	60,54	60,54	60,54	60,54	60,54	60,54	60,54	60,54	60,54	60,54
EBITDA	49,40	54,72	58,48	62,31	64,00	65,88	67,48	69,10	70,74	72,40	74,08
Depreciation	**30,79**	**27,70**	**28,70**	**29,25**	**29,07**	**28,93**	**28,82**	**28,74**	**28,68**	**28,66**	**28,66**
EBIT	18,61	27,01	29,78	33,06	34,93	36,96	38,66	40,36	42,05	43,74	45,42
Corporate Tax Paid	5,21	7,56	8,34	9,26	9,78	10,35	10,83	11,30	11,77	12,25	12,72
NOPAT	13,40	19,45	21,44	23,80	25,15	26,61	27,84	29,06	30,28	31,49	32,70
Capital Expenditure	**50,75**	**46,24**	**38,89**	**25,92**	**26,41**	**26,90**	**27,33**	**27,76**	**28,21**	**28,66**	**29,13**
Change in Net Working Capital	12,1	-3,2	-1,9	-0,4	-0,9	-0,7	-0,6	-0,7	-0,7	-0,7	-0,7
FCFF	**-18,70**	**4,15**	**13,14**	**27,57**	**28,74**	**29,36**	**29,97**	**30,69**	**31,42**	**32,17**	**32,93**

4) BU Italy income statement forecast

EUR mn	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Hotel revenues (Like for Like)	262,90	285,26	296,44	307,87	311,68	315,86	320,09	324,38	328,73	333,13	337,60
ow. Hotel Occupancy	196,47	193,93	201,53	209,30	211,89	214,73	217,61	220,52	223,48	226,47	229,51
ow. Catering	68,9	68,0	70,7	73,4	74,3	75,3	76,3	77,3	78,4	79,4	80,5
ow. Meeting rooms and others	14,5	14,3	14,9	15,4	15,6	15,8	16,1	16,3	16,5	16,7	16,9
ow. Rentals and other services	9,1	9,0	9,4	9,7	9,9	10,0	10,1	10,3	10,4	10,5	10,7
	289,00	285,26	296,44	307,87	311,68	315,86	320,09	324,38	328,73	333,13	337,60
Openings, Closings, Refurbishments and other	14	15	16	16	16	17	17	17	17	17	18
Total Revenues	276,67	300,19	311,97	323,99	328,00	332,40	336,85	341,37	345,94	350,58	355,27
Operating Expense	174,33	187,73	193,61	199,53	202,00	204,71	207,45	210,23	213,05	215,90	218,80
ow Staff Cost	76,96	78,32	81,52	84,75	86,06	87,35	88,66	89,99	91,34	92,71	94,10
# of employees	2.200	2.206	2.262	2.317	2.318	2.318	2.318	2.318	2.318	2.318	2.318
ow Direct Management Cost	97,37	109,40	112,09	114,77	115,94	117,36	118,79	120,24	121,71	123,20	124,70
Openings, Closings, Refurbishments and other	10,83	11,76	12,22	12,69	12,85	13,03	13,20	13,38	13,56	13,74	13,93
Total Opex	185,16	199,48	205,83	212,22	214,86	217,74	220,65	223,61	226,61	229,65	232,72
Gross Operating Profit	91,50	100,71	106,14	111,77	113,15	114,66	116,20	117,75	119,33	120,93	122,55
Openings, Closings, Refurbishments and other	2,93	3,18	3,30	3,43	3,46	3,51	3,56	3,60	3,65	3,70	3,75
Lease payments and property taxes	41,12	41,12	42,55	43,99	43,99	43,99	43,99	43,99	43,99	43,99	43,99
EBITDA	50,39	59,59	63,59	67,77	69,16	70,67	72,21	73,76	75,34	76,94	78,56
Depreciation	**13,93**	**12,86**	**13,36**	**13,75**	**13,67**	**13,60**	**13,55**	**13,52**	**13,49**	**13,48**	**13,48**
EBIT	36,46	46,74	50,23	54,02	55,49	57,07	58,65	60,25	61,85	63,46	65,07
Corporate Tax Paid	11,67	14,96	16,07	17,29	17,76	18,26	18,77	19,28	19,79	20,31	20,82
NOPAT	24,79	31,78	34,16	36,74	37,73	38,81	39,88	40,97	42,06	43,15	44,25
Capital Expenditure	**26,79**	**22,16**	**20,66**	**12,22**	**12,45**	**12,68**	**12,88**	**13,09**	**13,30**	**13,51**	**13,73**
Change in Net Working Capital	5,63	-1,47	-0,87	-0,21	-0,44	-0,34	-0,30	-0,31	-0,31	-0,32	-0,33
FCFF	6,30	23,95	27,72	38,48	39,39	40,07	40,86	41,71	42,57	43,44	44,33

5) BU Benelux income statement forecast

EUR mn	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Hotel revenues (Like for Like)	291,6	285,5	308,5	309,9	315,6	321,5	325,9	330,4	335,0	339,7	344,4
ow. Hotel Occupancy	188,9	194,1	209,7	210,7	214,5	218,5	221,6	224,6	227,8	230,9	234,1
ow. Catering	66,2	68,1	73,5	73,9	75,2	76,6	77,7	78,8	79,9	81,0	82,1
ow. Meeting rooms and others	13,9	14,3	15,5	15,5	15,8	16,1	16,3	16,6	16,8	17,0	17,3
ow. Rentals and other services	8,8	9,0	9,8	9,8	10,0	10,2	10,3	10,5	10,6	10,8	10,9
	277,8	285,5	308,5	309,9	315,6	321,5	325,9	330,4	335,0	339,7	344,4
Openings, Closings, Refurbishments and other	15,3	14,9	16,2	16,2	16,5	16,8	17,1	17,3	17,5	17,8	18,0
Total Revenues	306,9	300,5	324,6	326,2	332,1	338,3	343,0	347,7	352,6	357,4	362,4
Operating Expense	186,96	181,63	194,70	194,06	197,59	201,28	204,07	206,90	209,77	212,67	215,62
ow Staff Cost	86,34	89,61	97,84	99,31	100,83	102,35	103,88	105,44	107,02	108,63	110,25
# of employees	2.468	2.524	2.715	2.715	2.716	2.716	2.716	2.716	2.716	2.716	2.716
ow Direct Management Cost	100,62	92,02	96,86	94,75	96,75	98,93	100,19	101,46	102,75	104,05	105,37
Openings, Closings, Refurbishments and other	11,6	11,4	12,3	12,3	12,6	12,8	13,0	13,2	13,4	13,5	13,7
Total Opex	198,6	193,0	207,0	206,4	210,2	214,1	217,1	220,1	223,1	226,2	229,3
Gross Operating Profit	108,29	107,46	117,65	119,75	121,92	124,20	125,92	127,67	129,43	131,23	133,05
Openings, Closings, Refurbishments and other	3,65	3,57	3,86	3,88	3,95	4,02	4,08	4,13	4,19	4,25	4,30
Lease payments and property taxes	44,32	46,18	53,31	53,31	53,31	53,31	53,31	53,31	53,31	53,31	53,31
EBITDA	63,97	61,28	64,34	66,44	68,61	70,89	72,61	74,35	76,12	77,92	79,73
Depreciation	15,5	14,3	14,9	15,5	15,4	15,4	15,3	15,3	15,3	15,3	15,3
EBIT	48,5	47,0	49,5	50,9	53,2	55,5	57,3	59,0	60,8	62,6	64,4
Corporate Tax Paid	13,1	12,7	13,4	13,8	14,4	15,0	15,5	15,9	16,4	16,9	17,4
NOPAT	35,4	34,3	36,1	37,2	38,8	40,5	41,8	43,1	44,4	45,7	47,0
Capital Expenditure	**30,96**	**25,35**	**26,57**	**14,12**	**14,39**	**14,65**	**14,89**	**15,13**	**15,37**	**15,62**	**15,87**
Change in Net Working Capital	6,25	-1,66	-1,03	-0,24	-0,50	-0,40	-0,35	-0,36	-0,36	-0,37	-0,38
FCFF	13,7	24,9	25,4	38,8	40,4	41,6	42,6	43,6	44,7	45,8	46,9

6) BU Central Europe income statement forecast

EUR mn	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Hotel revenues (Like for Like)	367,80	388,76	390,57	404,67	418,21	426,24	432,63	439,12	445,71	452,39	459,18
ow. Hotel Occupancy	261,2	264,3	265,5	275,1	284,3	289,8	294,1	298,5	303,0	307,6	312,2
ow. Catering	91,6	92,7	93,1	96,5	99,7	101,6	103,1	104,7	106,2	107,8	109,4
ow. Meeting rooms and others	19,3	19,5	19,6	20,3	21,0	21,4	21,7	22,0	22,4	22,7	23,0
ow. Rentals and other services	12,2	12,3	12,4	12,8	13,2	13,5	13,7	13,9	14,1	14,3	14,5
	384,2	388,8	390,6	404,7	418,2	426,2	432,6	439,1	445,7	452,4	459,2
Openings, Closings, Refurbishments and other	19,3	20,4	20,5	21,2	21,9	22,3	22,7	23,0	23,3	23,7	24,0
Total Revenues	387,1	409,1	411,0	425,9	440,1	448,6	455,3	462,1	469,0	476,1	483,2
Operating Expense	229,29	240,41	239,58	246,20	254,44	259,33	263,22	267,16	271,17	275,24	279,37
ow Staff Cost	129,09	132,86	134,89	141,20	145,53	147,71	149,93	152,18	154,46	156,78	159,13
# of employees	3.690	3.742	3.743	3.860	3.920	3.920	3.920	3.920	3.920	3.920	3.920
ow Direct Management Cost	100,20	107,55	104,69	105,01	108,91	111,61	113,29	114,99	116,71	118,46	120,24
Openings, Closings, Refurbishments and other	14,3	15,1	15,1	15,7	16,2	16,5	16,8	17,0	17,3	17,5	17,8
Total Opex	243,5	255,5	254,7	261,9	270,6	275,8	280,0	284,2	288,4	292,8	297,2
Gross Operating Profit	143,52	153,65	156,32	163,99	169,47	172,73	175,32	177,95	180,61	183,32	186,07
Openings, Closings, Refurbishments and other	5,0	5,3	5,3	5,5	5,7	5,8	5,9	6,0	6,1	6,2	6,3
Lease payments and property taxes	104,45	105,79	105,79	109,49	111,38	111,38	111,38	111,38	111,38	111,38	111,38
EBITDA	39,07	47,86	50,54	54,50	58,10	61,35	63,94	66,57	69,24	71,95	74,69
Depreciation	**21,3**	**19,6**	**20,4**	**20,9**	**20,9**	**20,8**	**20,8**	**20,9**	**20,9**	**20,9**	**21,0**
EBIT	17,8	28,3	30,1	33,6	37,2	40,5	43,1	45,7	48,3	51,0	53,7
Corporate Tax Paid	5,2	8,3	8,9	9,9	11,0	12,0	12,7	13,5	14,3	15,0	15,8
NOPAT	12,5	19,9	21,2	23,7	26,3	28,6	30,4	32,2	34,1	36,0	37,8
Capital Expenditure	**40,12**	**35,03**	**29,35**	**19,80**	**20,46**	**20,84**	**21,18**	**21,51**	**21,86**	**22,21**	**22,57**
Change in Net Working Capital	9,2	-2,4	-1,4	-0,3	-0,7	-0,6	-0,5	-0,5	-0,5	-0,5	-0,5
FCFF	-15,5	6,9	13,7	25,1	27,4	29,1	30,5	32,1	33,6	35,2	36,8

7) BU Latin America income statement forecast

EUR mn	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Hotel revenues (Like for Like)	132,90	152,46	156,51	161,94	174,29	180,09	186,08	192,26	198,66	205,26	212,09
ow. Hotel Occupancy	90,2	103,7	106,4	110,1	118,5	122,4	126,5	130,7	135,1	139,5	144,2
ow. Catering	31,6	36,3	37,3	38,6	41,5	42,9	44,4	45,8	47,4	48,9	50,6
ow. Meeting rooms and others	6,7	7,6	7,8	8,1	8,7	9,0	9,3	9,6	10,0	10,3	10,6
ow. Rentals and other services	4,2	4,8	5,0	5,1	5,5	5,7	5,9	6,1	6,3	6,5	6,7
	132,7	152,5	156,5	161,9	174,3	180,1	186,1	192,3	198,7	205,3	212,1
Openings, Closings, Refurbishments and other	7,0	8,0	8,2	8,5	9,1	9,4	9,7	10,1	10,4	10,7	11,1
Total Revenues	139,9	160,4	164,7	170,4	183,4	189,5	195,8	202,3	209,1	216,0	223,2
Operating Expense	85,24	97,02	98,81	101,43	109,17	112,80	116,55	120,43	124,43	128,57	132,84
ow Staff Cost	53,49	59,93	61,88	64,42	68,13	69,15	70,18	71,24	72,31	73,39	74,49
# of employees	1.529	1.688	1.717	1.761	1.835	1.835	1.835	1.835	1.835	1.835	1.835
ow Direct Management Cost	31,75	37,09	36,94	37,02	41,04	43,65	46,37	49,19	52,12	55,18	58,35
Openings, Closings, Refurbishments and other	5,3	6,1	6,2	6,5	6,9	7,2	7,4	7,7	7,9	8,2	8,5
Total Opex	90,5	103,1	105,1	107,9	116,1	120,0	124,0	128,1	132,4	136,8	141,3
Gross Operating Profit	49,33	57,35	59,66	62,54	67,30	69,54	71,85	74,24	76,71	79,26	81,89
Openings, Closings, Refurbishments and other			4,02%	4,83%	7,62%	3,32%	3,32%	3,32%	3,32%	3,32%	3,32%
Lease payments and property taxes	7,31	7,93	8,08	8,08	8,28	8,28	8,28	8,28	8,28	8,28	8,28
EBITDA	42,02	49,42	51,58	54,46	59,02	61,26	63,57	65,96	68,43	70,98	73,62
Depreciation	13,4	15,3	16,1	16,6	16,5	16,5	16,5	16,5	16,5	16,5	16,54
EBIT	28,7	34,1	35,5	37,9	42,5	44,8	47,1	49,5	52,0	54,5	57,1
Corporate Tax Paid	7,1	8,5	8,8	9,4	10,5	11,1	11,7	12,3	12,9	13,5	14,2
NOPAT	21,6	25,7	26,7	28,5	32,0	33,7	35,4	37,2	39,1	41,0	42,9
Capital Expenditure	**30,01**	**30,72**	**25,13**	**15,20**	**15,84**	**16,14**	**16,39**	**16,66**	**16,92**	**17,20**	**17,47**
Change in Net Working Capital	6,8	-1,9	-1,1	-0,3	-0,6	-0,5	-0,4	-0,4	-0,4	-0,4	-0,4
FCFF	-1,9	12,2	18,8	30,1	33,2	34,5	35,9	37,4	39,0	40,7	42,4

8) NH Hoteles Balance Sheet Assets

NH Hotels Balance Sheet	2010	2011	2012	2013	2014	2015
Property, Plant & Equipment	2.199,31	2.108,81	1.857,64	1.714,98	1.606,36	1.667,41
Goodwill	120,41	119,97	101,81	97,22	93,92	132,79
Intangible Assets	115,93	107,58	91,97	72,62	78,84	123,24
Real estate investment	7,86	6,78	4,55	0,96	0,00	0,00
Investment Value Through Equity Method	69,99	73,73	95,67	84,18	17,82	18,43
Non-Current Financial Investments	177,05	111,41	111,25	111,60	165,56	164,58
Deferred Tax Assets	119,57	134,94	210,94	198,78	157,86	157,91
Other Non-Current Assets	1,58	1,33	0,79	0,58	11,09	16,88
Total Non-Current Assets	**2.811,70**	**2.664,53**	**2.474,61**	**2.280,91**	**2.131,45**	**2.281,23**
Assets Classified as Held for Sale	0,00	0,00	0,00	0,00	95,19	91,96
Inventories	118,97	116,23	86,12	79,64	8,23	8,83
Trade Receivables	127,39	121,19	121,50	119,20	136,01	185,15
Non-Trade Receivables	75,78	73,03	65,82	60,86	69,79	72,89
Short-Term Financial Investments	0,09	0,00	14,85	0,00	2,79	1,74
Cash and Cash Equivalents	173,12	91,14	40,79	133,87	200,10	56,36
Other Current Assets	13,84	11,37	14,09	13,04	17,44	21,94
Total Current Assets	**509,20**	**412,96**	**343,17**	**406,60**	**529,55**	**438,86**
Total Assets	**3.320,90**	**3.077,49**	**2.817,78**	**2.687,51**	**2.661,00**	**2.720,09**

9) NH Hoteles Balance Sheet Equity and Liabilities

Equity						
Share Capital	493,24	493,24	493,24	616,54	700,54	700,54
Parent Company Reserves	510,43	577,81	576,51	657,80	624,57	498,47
Reserves in Fully Consolidated Companies	276,67	170,74	160,89	-106,07	-68,05	51,58
Reserves in Companies consolidated using the equity method	-7,90	-13,15	-5,68	-11,70	-19,79	-21,14
Other Equity Instruments	-6,58	-0,38	-5,69	27,23	27,23	27,23
Exchange differences	-59,54	-83,43	-79,81	-103,66	-102,66	-98,53
Treasury Shares	-0,37	-11,91	-11,59	-38,12	-38,81	-38,03
Consolidated Profit (Loss) for the Financial Year	-41,30	6,23	-293,74	-41,56	-9,55	-17,43
Equity Attributtable to Parent Company Shareholders	**1.164,66**	**1.139,15**	**834,13**	**1.000,47**	**1.113,49**	**1.102,70**
Non-Controlling Interests	204,16	204,65	159,16	153,00	23,18	27,25
Total Equity	**1.368,82**	**1.343,80**	**993,29**	**1.153,47**	**1.136,67**	**1.129,96**
Liabilities						
Obligations and Other Marketable Securities	0,00	0,00	0,00	458,29	463,98	467,85
Bank Borrowings	663,79	225,92	177,80	321,30	268,94	306,11
Obligations under Finance Leases	0,42	0,57	1,29	1,70	2,78	2,27
Other Non-Current Liabilities	97,34	87,77	60,46	50,31	88,48	105,49
Provisions for Risks and Charges	40,11	30,85	63,79	66,74	56,93	47,78
Deferred Tax Liabilities	257,16	246,20	233,94	201,23	179,73	189,59
Total Non-Current Liabilities	**1.058,82**	**591,31**	**537,27**	**1.099,55**	**1.060,85**	**1.119,09**
Liabilities Classified as Held for Sale	0,00	0,00	0,00	0,00	56,08	56,75
Obligations and Other Marketable Securities	0,00	0,00	0,00	3,66	3,52	3,61
Bank Borrowings	507,97	831,12	853,33	96,04	70,91	62,46
Obligations under Finance Leases	0,40	0,42	2,27	2,43	1,06	0,98
Trade and Other Payables	226,88	235,68	255,06	229,59	231,43	256,17
Tax Payables	30,63	35,67	43,06	37,50	40,09	39,69
Provisions for contingiencies and charges	5,13	1,24	53,46	26,27	14,84	12,69
Other Current Liabilities	122,26	38,26	80,04	39,00	45,56	38,71
Total Current Liabilities	**893,26**	**1.142,39**	**1.287,22**	**434,49**	**463,48**	**471,05**
Total Liabilities	**1.952,08**	**1.733,69**	**1.824,49**	**1.534,04**	**1.524,33**	**1.590,14**
Total Equity and Liabilities	**3.320,90**	**3.077,49**	**2.817,78**	**2.687,51**	**2.661,00**	**2.720,09**