A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics

PRIVATE EQUITY CHALLENGE – PESTANA HOTEL GROUP

TOMÁS ANTUNES ROCHA – 33850

A Project carried out in the Master in Finance Program, under the supervision of:

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Abstract:

This Work Project, taken in the context of a Private Equity Challenge, was developed by a group of four Nova Master's in Finance students to meet only academic purposes and consists on a simulation of an Investment Committee Paper on Pestana Hotel Group. As the Portuguese based Group was the target of the developed project, the work covers all the qualitative and quantitative aspects of the company. A possible strategy, focusing on the operational side of the Hospitality segment, appears as an attractive Private Equity investment. This specific part focuses on the chapters of the contingency plan and exit strategy.

Keywords:

Pestana Hotel Group; Private Equity; Hospitality; Asset-Light

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Private Equity Challenge - Disclaimer

Please, be advised that:

| This project was undertaken with an academic purpose, using publicly available information or information made available by Pestana Hotel Group;

| As an academic project, the values and dates mentioned are estimates and are not representative of any forecasts conducted by Pestana Hotel Group;

| The presented information that cannot be found publicly was made available by Pestana Hotel Group with the only purpose of being used for this project and cannot be used or redistributed for other purposes without Pestana's consent.

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Key assumption:

| Due to data restrictions, the analysis was conducted as if it was **January 2019**, with a potential deal occurring still in 2019. With this assumption in mind, a more precise analysis could be made, and better conclusions could be drawn.

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Individual Slide – Tomás Rocha

| The development of this project with a group of 3 colleagues has been of great importance to my development, not only professionally but individually, as I was exposed to situations I had not yet experienced.

| As I have been working while developing the thesis, I believe the most important learnings I had to adopt from the first stage were time management, the ability to delegate tasks and, perhaps most importantly, learn to trust the work developed by others. However, these are only a tiny part of what this project brought me

| In terms of the Private Equity area specifically, and taking into consideration I had already undertaken the Private Equity course during my masters, where a similar project is completed in a shorter scale, the development of this presentation with such detail as been great on learning the difficulties faced daily by professionals to gather the needed information. Theoretically, the exposure to every stage of a private equity investment paper was enriching as there was a big necessity to plan and deeply understand each step to present a flawless project.

| Still focusing on learnings, and looking ahead to what the final presentation will be like, presenting a 3 months work to a committee with experienced judges that will critically question the developed tasks, is certainly an experience of enormous value. The fact that one is tested academically on something that will be performed daily as a professional is an opportunity not to be wasted.

| All in all, the development of this thesis with such an ambitious group and with such high standards to be met, has been surely a remarkable experience that will be of great use to our future lives.

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Contingency Plan

Contingency Plan | If the Asset-Heavy entry strategy is required, Pestana will have much more unstable FCFs, although, in the end, tending to the same value as in the Asset-Light entry strategy

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Contingency Plan

| In the event Dionísio Pestana wants to sell the assets along with the operations and a partnership with a real estate fund cannot be successfully conducted, a viable contingency plan can still be put through. In this case, the Private Equity firm would **buy not only the operations** of the Hospitality segment but **also the land and buildings** that are expected to be worth **€ 823M in market value** terms. Nevertheless, the same expansion strategy will be pursued. And, with the purpose of turning the company into an Asset-Light one in order to follow the market tendency, **the land and buildings will be sold** in the years following the acquisition.

Forecasted Income Statement and Free Cash Flow (Asset-Heavy Entry Strategy)

	Income Statement (Asset-Heavy)										
(amounts in M€)	2018	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F	2027 F	CAGR
Revenues	**268,22**	**297,97**	**359,40**	**451,19**	**534,99**	**596,93**	**609,57**	**618,14**	**622,66**	**626,42**	**9,88%**
Room Revenues	149,83	166,45	200,77	252,04	298,85	333,46	340,52	345,30	347,83	349,93	
F&B Revenue	114,42	127,12	153,32	192,48	228,23	254,65	260,04	263,70	265,63	267,23	
Other Departments	3,96	4,40	5,31	6,67	7,91	8,82	9,01	9,14	9,20	9,26	
Variable Costs	**-155,61**	**-172,26**	**-203,33**	**-257,02**	**-299,90**	**-330,93**	**-337,15**	**-341,56**	**-344,07**	**-346,15**	**9,29%**
Operating Costs	-35,86	-39,70	-46,78	-58,81	-68,02	-75,49	-77,04	-78,05	-78,62	-79,09	
Room Costs	-42,15	-46,53	-54,73	-67,38	-77,39	-84,82	-86,14	-87,07	-87,71	-88,24	
F&B Costs	-73,73	-81,74	-96,84	-124,33	-146,78	-162,10	-165,28	-167,62	-168,86	-169,88	
Other Departments Costs	-3,86	-4,29	-5,08	-6,50	-7,71	-8,51	-8,69	-8,82	-8,88	-8,94	
Fixed Costs	**-16,25**	**-17,11**	**-21,89**	**-25,67**	**-28,31**	**-29,30**	**-29,30**	**-29,30**	**-29,30**	**-29,30**	**6,77%**
GOP	**96,37**	**108,60**	**134,18**	**168,50**	**206,78**	**236,70**	**243,12**	**247,28**	**249,29**	**250,96**	**11,22%**
GOP Margin	35,93%	36,45%	37,33%	37,34%	38,65%	39,65%	39,88%	40,00%	40,04%	40,06%	1,22%
Rents & Management Fees	-15,26	-17,08	-27,67	-38,27	-46,21	-52,28	-53,56	-54,40	-54,82	-55,17	
Insurance	-2,15	-2,38	-2,88	-3,61	-4,28	-4,78	-4,88	-4,95	-4,98	-5,01	
EBITDA	**78,96**	**89,13**	**103,63**	**126,62**	**156,28**	**179,65**	**184,69**	**187,93**	**189,49**	**190,78**	**10,30%**
EBITDA Margin	29,44%	29,91%	28,84%	28,06%	29,21%	30,09%	30,30%	30,40%	30,43%	30,46%	0,38%
EBITDAR	94,22	106,21	131,30	164,89	202,50	231,93	238,25	242,33	244,31	245,95	11,25%
Depreciation and Amortization	-35,92	-20,52	-19,06	-24,68	-28,39	-29,50	-28,87	-28,10	-27,51	-27,09	
in Buildings	-23,72	-8,94	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	
in Basic Equipment	-9,97	-9,48	-16,89	-22,41	-26,01	-26,99	-26,20	-25,23	-24,41	-23,71	
in Administrative Equipment	-0,71	-0,69	-0,69	-0,71	-0,72	-0,73	-0,73	-0,73	-0,73	-0,73	
in Software	-0,40	-0,56	-0,71	-0,87	-1,03	-1,22	-1,43	-1,67	-1,95	-2,27	
in Concessions	-1,12	-0,85	-0,77	-0,69	-0,62	-0,56	-0,51	-0,46	-0,41	-0,37	
EBIT	**43,04**	**68,61**	**84,57**	**101,94**	**127,89**	**150,15**	**155,82**	**159,84**	**161,98**	**163,69**	**16,00%**
(-) Taxes	-8,59	-13,70	-16,89	-20,35	-25,53	-29,98	-31,11	-31,91	-32,34	-32,68	
(+) Depreciation and Amortization	35,92	20,52	19,06	24,68	28,39	29,50	28,87	28,10	27,51	27,09	
(-) CapEx	-99,37	389,70	171,41	-54,00	-36,37	-23,23	-21,26	-21,88	-22,44	-23,04	
(+) Disposals (net of tax on gain)	-	528,71	269,66	0,00	0,00	0,00	0,00	0,00	0,00	0,00	
(-) Change in Net Working Capital	-8,86	1,67	-4,04	-4,58	-5,29	-3,99	-0,82	-0,51	-0,23	-0,19	
FCF	**-37,87**	**995,52**	**523,78**	**47,69**	**89,09**	**122,45**	**131,50**	**133,63**	**134,48**	**134,86**	

| Comparing the Asset-Heavy entry strategy with the Asset-Light from before, the forecasts related to **revenues** and **operational costs** are identical, the reason why the **GOP** is equal.

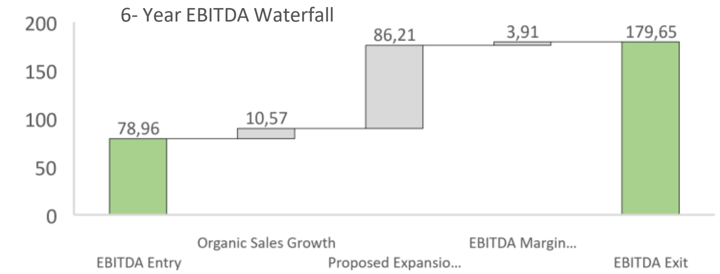
| As such, the **EBITDA** also increases considerably and at a higher pace than revenues, presenting a **10,30% CAGR** until 2027, which is once again mainly due to the dilution of fixed costs as more hotels are opening. Nevertheless, this growth is lower than the one of the Asset-Light entry strategy. And the reason behind this has to do with **management fees**.

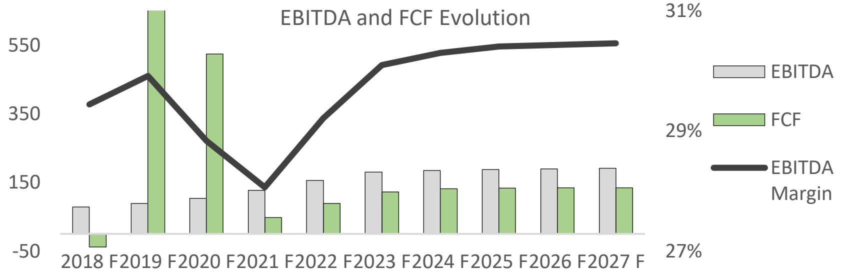
| As, under this Asset-Heavy entry strategy, the non-operational assets are purchased, fewer management fees have to be paid in the beginning. However, given the intention of turning the Group into an Asset-Light company as to follow the market's tendency, the strategy includes selling these assets in 2019 and 2020 and keeping the hotel operation under management contracts (the reason why, in 2021, the amount of management fees paid is substantially higher than the one in 2018). Adding to this, as all the expansion is done under management contracts, the total management fees rise even further and more than triple across the period.

| Because of the effects of management fees, the **EBITDA margin** was initially higher than in the Asset-Light entry strategy, but, **after 2021, both strategies are identical**, the reason why the EBITDA and EBITDA margins meet.

| In what concerns the **depreciation**, even though the company becomes Asset-Light, it still needs to have some building-related depreciations while holding these assets. Afterward, the depreciation is only related to basic equipment, software, and administrative equipment.

| By 2024, the EBITDA will have grown by **2,34x** (**+ € 105,73M**) at a **15,21% CAGR**. This growth is explained in **86%** by the **proposed expansion strategy**, in **10%** by **EBITDA margin growth** and in **4%** by the **organic sales growth**.





FCF Forecast

| The **FCFs** are also increasing considerably over time. Despite that, it is important to highlight that the values in 2019 and 2020 are not recurrent since they are inflated by the amounts received from **disposals**. Therefore, the performance of these years does not correspond to a recurrent improvement of operational results.

| The unlevered recurrent FCFs make Pestana very suitable for a **leveraged buyout**. Nevertheless, an unusual capital structure has to be considered given the particularity of the non-operational assets deal.

Returns | The investment under the Asset-Heavy entry strategy aims at exiting after 6 years, yielding an IRR of 23,8% and a MM of 3,59x

Returns - Asset-Heavy Entry Strategy

Exit Waterfall (2024)

| Under the Asset-Heavy entry strategy, the exit is planned to occur in **2024**. The rationale behind this choice has to do with both the strategy followed and the analyzed IRR. In fact, the expansion strategy proposed will only be fully implemented by 2022, and so it will not make sense to exit before the conclusion nor even immediately after, as the EBITDA will not be yet reflecting the total impact. However, it is in 2023 that the IRR will be maximized, starting to slightly fall right after. Still, exiting in 2024, means the **fund** will achieve an **IRR of 23,8%** and a **MM of 3,59x,** with the **management team** getting a **17,33x MM**.

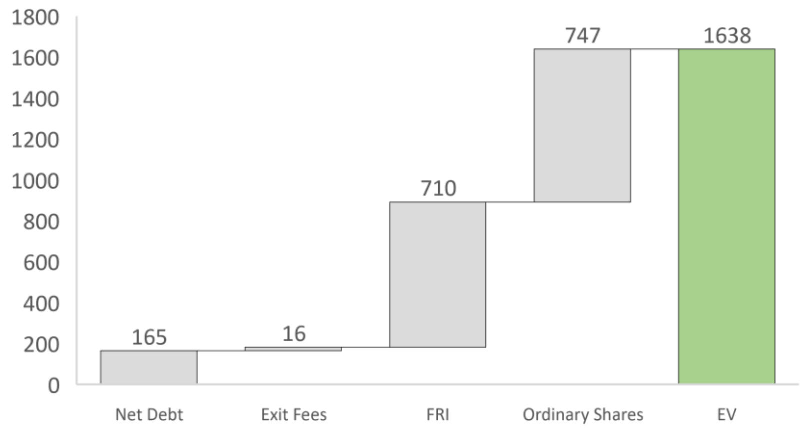
| At the exit date, an **Enterprise Value of € 1.638M** will be reached by multiplying the **EBITDA** at the time, i.e., **€ 185M**, by the **exit multiple**, that is considered to be the same as the entry one under the Asset-Light perspective, as during the holding period the company will **sell all its properties and become fully Asset-Light**.

| From the EV reached, a part must be assigned to debt repayments, being the remaining returns achieved by the equity.

| Therefore, and because all the debt will need to be paid at the exit moment, the amount of **net debt of € 165M** must be discounted from the EV, since the other remaining debt can be paid with the cash generated by the operational activities.

| After that process, an amount of € 16M will also need to be paid as exit fees for services such as vendor-side due diligence and advisory.

| The remaining **€ 1.457M** will be the part attributable to the fund and management team that consists of the sum of the FRI and Ords.



Returns Breakdown (2024)

| Under this entry strategy, the value creation achieved at the exit date is of **€ 1.197M**.

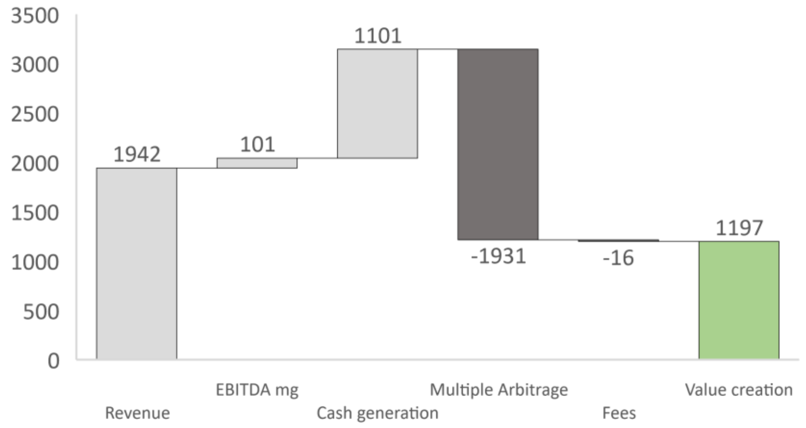
| The main sources of value creation are the EBITDA growth through the **increase in revenues** and the **cash generation**, mainly because of the **deleveraging** conducted through the years that allowed the company to amortize its debt by the total amount obtained from the disposals.

| It is also important to highlight that the considerable difference between the **revenue growth** contribution for value creation in both entry strategies is explained by the difference in the entry multiples of each one, making sense then that the Asset-Heavy strategy presents such high values.

| Nevertheless, this difference is counterbalanced by the **multiple arbitrage** value creation wheel, that under this scenario, assumes very negative values. This happens because **the entry multiple of 19,3x reduces drastically to 8,87x** as Pestana will become Asset-Light.

| Impacting the value creation positively, there is the **EBITDA margin growth**, that since it only increases by **1pp** has little significance in the overall returns.

| Also with little impact, but this time with a negative effect, there are the **exit fees** that amount to € 16M.



Source: https://www-hvs.com/article/7993-hotel-management-contracts-in-europe

Capital Structure | In the Asset-Heavy entry strategy, an OpCo-PropCo capital structure will allow for a special pay-if-you-can term loan B to cover the non-operational assets

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Capital Structure - Asset-Heavy Entry Strategy

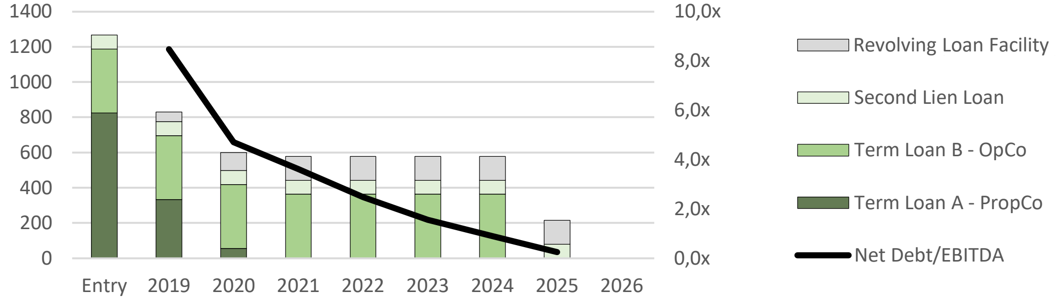
Capital Structure

- Under this contingency plan, the Enterprise Value of Pestana is of **€ 1.524,18M**, or **19,30x the EBITDA**. Adding the fees that must be paid for the extensive due diligence work, the advisors, the legal fees, and the transaction fees (that include the non-operating asset transfer fees), the total funding reaches **€ 1.630,87M** (**20,7x the EBITDA**).
- Given the market's favorable debt financing conditions and the intention to meet the market's Asset-Light tendency, an **OpCo-PropCo** structure was considered. As a result, a total debt ratio of **5,6x the total EBITDA** was considered for the OpCo (owner of the operational side of Pestana), with the PropCo (owner of the non-operational assets) having a debt ratio of **10,43x the total EBITDA.**

Sources of Funds	M€	x EBITDA
Senior debt		
Term Loan B - PropCo	823,69	10,43x
Term Loan B - OpCo	363,23	4,60x
Subordinated debt		
Second-Lien Loan	78,96	1,00x
Total debt	**1 265,88**	**16,0x**
Fixed Return Instrument	**348,33**	4,4x
Ordinary Equity	**16,66**	0,2x
Institutional Investor	13,33	
Sweet Equity	3,33	
Total Equity	**364,99**	**4,6x**
Total sources	**1630,87**	**20,7x**

Uses	M€
EBITDA 2018	78,96
EV/EBITDA Multiple	19,30x
Enterprise Value	**1524,18**
Fees (7%)	**106,69**
Total Uses	**1630,87**

Deleveraging Profile



Debt Sources

Term Loan B (PropCo) - 10,43x EBITDA

Senior, secured debt. Maturity within **7 years** and interest rate of **113 bps** (30% of Term Loan B's interest rate). **Pay-if-you-can** amortization with the proceeds from the disposals (**59,6%** in **2019**; **33,6%** in **2020**; **6,8%** in **2021**).

Term Loan B (OpCo) - 4,60x EBITDA

Senior, secured debt. Maturity within **7 years** and interest rate of **350 bps + Euribor** (with floor at 0 bps). **100% bullet** repayment in **2025**.

Second-Lien Loan - 1,00x EBITDA

Subordinated, unsecured debt. Maturity within **8 years** and interest rate of **750 bps**. **100% bullet** repayment in **2026**.

Revolving Loan Facility – max. € 151M

Subordinated, unsecured debt. Drawdown in the first 3 years to cover for the CapEx needs. **100% bullet** repayment in **7 years (2025)** and interest rate of **350 bps + Euribor** (with floor at 0 bps).

Equity Sources

(amounts in M€)

Institutional Strip	**361,65**
Fund	354,99
Fixed Return Instrument	341,91
Institutional Ords	13,08
Management	6,66
Fixed Return Instrument	6,42
Institutional Ords	0,25
Sweet Equity	**3,33**
Total Equity	**364,99**

- The Equity Sources are divided among the **Management Team** and the **Private Equity Fund**.
- For the 43 members of the management team to have their incentives aligned with the Private Equity manager and fund's objectives, they will be asked to co-invest using a **Sweet Equity** component (20% of Ordinary Equity), and a portion of the **Institutional Ords** and **Fixed Return Instrument**, totaling **€ 9,99M** in investment (€3,33M for the 8 top managers and €6,66M for the remaining). As a result, the fund will be responsible for the remaining **€ 354,99M**, divided into both Ords and Fixed Return Instrument.

Fixed Return Instrument - 4,4x EBITDA

Yearly guaranteed rate of return of **12,5% (PIK)**. Management holds **1,8% (€ 6,42M)** due to co-investment.

Ordinary Equity - 0,20x EBITDA

Management holds **20% through sweet equity (€ 3,33M)** + **1,5% through ords (€ 0,25M)**, representing a high level of management ownership and incentive alignment.

Returns | The Asset-Heavy entry strategy still presents an interesting financial performance and returns

Returns - Asset-Heavy Entry Strategy

	(amounts in €M)	Bank Case	Investment Case	Optimistic Case
Management Entry € 10M	MM	13,0x	17,3x	21,0x
	FRI	13,01	13,01	13,01
	Ords	117,27	160,24	196,37
	Total	130,28	173,25	209,38

FRI	MM	3,2x	3,6x	4,0x
	IRR	21,10%	23,80%	25,80%

| Under the Asset-Heavy entry scenario, the returns are a little bit different, being **lower than in the Asset-Light entry strategy**. In fact, and although the assumptions used for the optimistic and bank scenarios are the same, since the amount of debt and interests Pestana must pay is higher, the return decreases slightly.

| In this case, the Management Team would achieve a MM of 15,54x under the investment scenario.

| This value lowers to **11,35x** when in the **bank** scenario and increases to **17,55x** under the **optimistic** one.

| Regarding the Fund, it achieves an IRR of 26,3% and a MM of 3,22x in the optimistic scenario. This value oscillates to a **22,7% IRR and a 2,79x MM under the bank scenario** and a **27% IRR and a 3,3x MM under the optimistic one**.

Key Statistics - Asset-Heavy Entry Strategy

(amounts in M€)	2019	2020	2021	2023	2024
Cash	74,45	111,73	119,87	297,13	412,70
Cash Flow	74,45	37,28	8,14	105,66	115,57
Cash Coverage	1,1x	1,1x	1,1x	5,2x	5,6x
Interest Coverage	2,9x	3,9x	5,2x	7,9x	8,4x
Net Debt / EBITDA	8,5x	4,7x	3,6x	1,6x	0,9x

| The financial performance under the Asset-Heavy entry strategy is not as strong as in the Asset-Light one.

| This comes from the fact that a high level of debt is undertaken at the beginning. Therefore, and even though the money gathered from the disposals is used to amortize debt, the **interests paid will be higher in the first years**. Therefore when comparing both tables, it is possible to notice that the cash coverage and interest coverage ratios are lower under this strategy. Nevertheless, they never become lower than 1,0x.

Entry & Exit Multiple

Table 1

		Exit Multiple						
		7,4x	7,9x	8,4x	8,9x	9,4x	9,9x	10,4x
AH Entry Multiple	18,1x	20%	21%	23%	24%	25%	26%	27%
	19,3x	20%	21%	23%	24%	25%	26%	27%
	19,8x	20%	21%	23%	24%	25%	26%	27%

Entry Multiple & Senior Debt Level

Table 2

		Total Senior Debt				
		4,4x	4,5x	4,6x	4,7x	4,8x
AH Entry Multiple	18,8x	26%	26%	26%	27%	27%
	19,3x	23%	24%	24%	24%	24%
	19,8x	21%	22%	22%	22%	22%

Entry Multiple & Exit Year

Table 3

		Exit Year			
		2022	2023	2024	2025
AH Entry Multiple	18,8x	29%	29%	26%	24%
	19,3x	26%	26%	24%	22%
	19,8x	23%	24%	22%	20%

IRR - Sensitivity Analysis

| The present tables analyze the impact of different variables on the IRR achieved at the exit date. Both table 1 and table 2 assume the exiting year of **2024.**

| As one can see from Table 1, as the **entry multiple goes down, the IRR goes up**, *ceteris paribus,* and *vice-versa*.

| Table 2 analyzes the effect of changes in total senior debt (in this case, only the debt raised for the OpCo) on the IRR reached. As one can infer, for each entry multiple, as the total amount of **senior debt increases, the IRR at exit also increases**. This results from the fact that even though Pestana is paying interest on this debt, due to the **time value of money**, it compensates to **receive the cash now and pay the debt later**.

| Table 3 studies how changes in the entry multiple may affect the choice of the year to exit. However, and although the IRR varies as the multiple changes, there is a possibility of achieving interesting returns after the expected exit year. Consequently, the **exit year should be revised** closer to the exit date. Besides that, there is also the possibility of exiting earlier, since for the Asset-Heavy entry strategy the IRR achieved in 2022 and 2023 is higher than the one in 2024 and in 2023 the expansion plan is also already completed.

Returns | In the foreseen scenario, the Asset-Light entry strategy is preferable, but it may be financially beneficial to go for an Asset-Heavy entrance if conditions are prospering

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Comparison - Asset-Light vs Asset-Heavy Entry Strategies

| When looking at both entry strategies, one can understand that the main difference between them is that, in the Asset-Heavy one, the Private Equity investment will **also buy the assets instead of buying only the operations of Pestana**.

| Besides that, the **same expansion plan** will be conducted through the holding period in both strategies, and, at the exit date, the financials of the firm will look the same. Nevertheless, due to some crucial differences in the entry process, the returns will differ among each strategy, as well as some other aspects.

| With that being said, the first difference appears right at the beginning, when deciding the capital structure for the investment. As one can easily understand, since in one process, the acquired firm will be more valuable as it will own more assets, more money will have to be spent on buying it. This means that a higher amount of debt will be needed. So, for the **Asset-Heavy entry strategy**, an **OpCo-PropCo** structure will be put in place, which will differ from the Asset-Light entry strategy mainly by having a **second term loan B for the PropCo** in the amount of the market value of the assets. This term loan will be a pay-if-you-can loan, meaning that it is going to be amortized when possible, preferably as the land and building are sold.

| The second major difference regards the cash flows. In fact, in the contingency plan, a higher amount of money is received when the assets are sold. However, as time passes, the **cash flows will tend to the same levels** as in the Asset-Light entry strategy.

| Besides that, it is also possible to observe that, for the Asset-Heavy entry strategy, the **management fees** that would have to be paid in the first years, are lower. Nevertheless, this only happens because, in these first years Pestana will still be owning some hotels, on which management fees will not be paid. As the selling process is pursued, this value starts to increase and reaches the levels of the Asset-Light entry strategy.

| In what concerns to the returns, they are substantially different in both strategies. While, in the **preferred strategy**, a **MM of 23,22x** can be reached for the management team and an **IRR of 30%** and a **MM of 4,82x** can be achieved by the fund, in the **contingency plan**, these values are lower. In fact, for the Asset-Heavy entry strategy, the management team only gets a **MM of 17,43x** and the fund achieves an **IRR of 24%** and a **MM of 3,61x**.

Impact of the Entry Multiple on the choice of the Strategy

Table 1

		Exit Multiple						
		7,4x	7,9x	8,4x	8,9x	9,4x	9,9x	10,4x
AL Entry Multiple	8,4x	29%	30%	32%	33%	34%	35%	36%
	8,9x	26%	27%	29%	30%	31%	32%	33%
	9,4x	24%	25%	26%	27%	29%	30%	31%
		7,4x	7,9x	8,4x	8,9x	9,4x	9,9x	10,4x
AH Entry Multiple	18,1x	20%	21%	23%	24%	25%	26%	27%
	19,3x	20%	21%	23%	24%	25%	26%	27%
	19,8x	20%	21%	23%	24%	25%	26%	27%

Source: https://www-hvs.com/article/7993-hotel-management-contracts-in-europe

| From Table 1, it is possible to notice that, when a multiple of **18,1x the EBITDA** is applied to the Asset-Heavy strategy, the returns from the Asset-Light and Asset-Heavy strategies are similar, *ceteris paribus*. This would mean that, under this scenario, it would be almost financially **indifferent** to buy the company's non-operational assets or not. Therefore, if the entry multiple of the Asset-Heavy strategy is **lower than 18,1x, it would be better to acquire Pestana with its land and buildings** as the gains from the sale would compensate for the increase in the amount of debt undertaken at the beginning. While this is not a reality, an **Asset-Light entry strategy would be preferred**.

| Nevertheless, it is also important to bear in mind that by undertaking more debt, the Asset-Heavy entry strategy would always carry a lot more risk.

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Exit Strategy

Exit Strategy | The four more common exit strategies were analyzed considering the likelihood and benefits of each to Pestana's specific case. Strategic Sale is, *a priori*, the preferred way out

Exit Overview

Exit Strategies

IPO

| Since Pestana's forecasted valuation at exit will be higher than the entry value, the possibility to make Pestana's IPO should not be disregarded. However, as it is hard to estimate the market conditions and investors' appeal on the brand and industry by the exiting period, it does not seem to be the optimal strategy to point at. Despite this, the IPO option should be again considered as the exiting period is being reached, so that the underlying market conditions are evaluated and a more thoughtful decision is conducted.

Strategic Sale

| Strategic Sale is the most common exit strategy and it is also the preferred strategy to follow, *a priori*, in this case. As Pestana's valuation will be high but still far below some of its international competitors, it is believed there will be a few interested firms by the time the exit is planned. This is likely to be the most profitable strategy as industry peers would be willing to pay a more significant premium over the forecasted EV due to future synergies they would benefit from. For this scenario, the firms expected to be most interested are the following:

| **Marriott:** Marriott is the biggest hotel chain worldwide, and it has a long history of acquisitions, especially in the last decades, with an average of one acquisition per year since 2005. The last occurred in September 2018, with the purchase of ILG for $ 4,6B.

| **Accor Hotels:** With more than 4.000 hotels operating globally, Accor has not an extent acquisition history but, lately, they have been acquiring diverse hotel groups to support their growth. In 2018 alone, Accor acquired a major stake of 6 hotel groups and they have stated their will to pursue this strategy in the foreseen years.

| Others**: Intercontinental Hotels Group, Hyatt Hotels Corporation, Hilton, Jin Jiang International**, and **NH Hotels Group** will also be potential bidders for the acquisition process. All of these hotels have a history of acquiring other hotel groups, and all have enough dimension to acquire Pestana. The likelihood of bidding will depend on the strategy they will adopt in the next years.

Secondary Sale

| The possibility of selling to another Private Equity firm seems remote as the Enterprise Value of Pestana at exit may be a concern for most private equities that would not be able to support the deal fully. Moreover, selling to another private equity would mean a lower willingness to pay as there would not be as many synergies as in a strategic sale. On the other hand, following this strategy would mean a quicker and seamless selling process.

Multiple Partial Sale

| The choice of buying only the Hospitality segment had in consideration the difficulties that could arise if the company's operations had to be sold separately. Nevertheless, since Pestana's operations will be highly distributed geographically, if a better deal is reached when selling the firm segmented by geographical areas, this strategy should be followed. If an offer for only a part of the company is received during the holding period, although it may be appealing to accept, the impact it will have on the price of the rest of the company shall be carefully forecasted.


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