

# NH HOTEL GROUP

TRAVEL & TOURISM SECTOR

STUDENT: MORGAN TROCHU

# COMPANY REPORT

03 JANUARY 2018

27246@novasbe.pt

## Road To Operational Efficiency...

... and international expansion

### ▪ Fundamentals suggest an up sight.

NH Hotel Group share price gained 52.28% since beginning 2017. Positive earnings surprise has helped the share price to increase. Moreover, economic stability and the robust growth of tourism and travel industry boosted tourists demand and spending. Recommendation for NH Hotel Group is a **BUY** with an upside of 16.5%.

### ▪ Repositioning plan will help ADR and occupancy rate to grow further.

The company continues to implement its repositioning plan, which allowed NH Hotel Group to significantly increase their prices for the rooms. It is assumed, with the help of asset rotation and expansion, that the prices will increase further in the future. NH Hotel Group has clear incentives to expand its Upper Upscale segment to target clients with high disposable income.

### ▪ Operational improvement and deleveraging will reduce borrowing cost and risk.

The EBITDA margin has been improving since the beginning of the repositioning and expansion plan. Overall EBITDA margin has increased from 6.31% in 2013 to 12.56% in 2016. Upon the termination of the both plan, EBITDA margin is expected to be at 32.41% in 2021.

### Company description

NH Hotel is a Spanish hotel chain with global operations in Europe, Latin American and Africa. The company traded in the Madrid stock index exchange since 1998 and is a member of the Spain blue chip stock index, the IBEX-35.

**Recommendation:** BUY

**Price Target FY18:** 7.05 €

**Price (as of 03-Jan-18)** 6.05 €

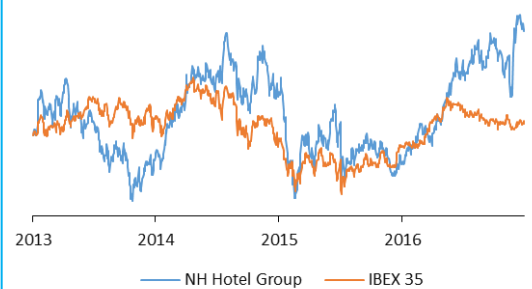
Bloomberg: NHH SM Equity

52-week range (€) 3.83-6.25

Market Cap (€b) 2.10

Outstanding Shares (m) 350.27

Source: Bloomberg



Source: Bloomberg

| (Values in € millions) | 2015   | 2016E  | 2017F  |
|------------------------|--------|--------|--------|
| Revenues               | 1376.6 | 1447.9 | 1534.8 |
| EBITDA                 | 144.0  | 181.8  | 238.6  |
| Net Profit             | -28.1  | 30.9   | 40.1   |
| EPS                    | 0.0    | 0.08   | 0.14   |
| EBITDA margin          | 10.5%  | 12.5%  | 15.6%  |

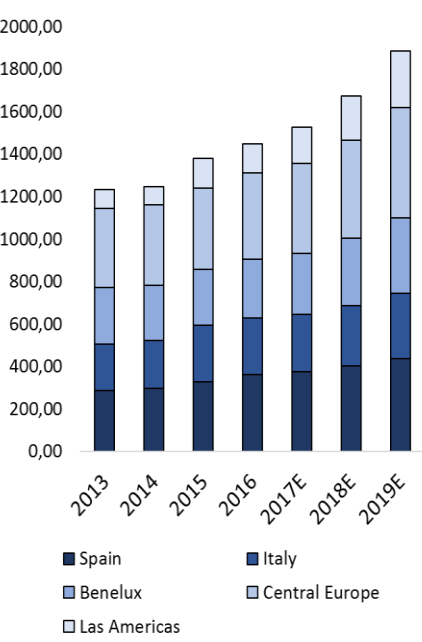
Source: Bloomberg, Company Data, Analyst Estimates

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY MORGAN TROCHU, A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A PURE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.  
(PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

# Table of Contents

|                                   |           |
|-----------------------------------|-----------|
| <b>COMPANY OVERVIEW</b>           | <b>3</b>  |
| <b>BUSINESS UNIT ANALYSIS</b>     | <b>6</b>  |
| <b>VALUATION</b>                  | <b>22</b> |
| <b>MULTIPLES</b>                  | <b>29</b> |
| <b>FINANCIALS</b>                 | <b>29</b> |
| <b>FINANCIAL STATEMENTS</b>       | <b>30</b> |
| <b>DISCLOSURE AND DISCLAIMERS</b> | <b>32</b> |

**Exhibit 1 – Gross Sales per Region (EURm)**



Source : Company Data ; Analyst Estimates

## Company overview

### Company description

NH Hotel is a Spanish hotel chain with global operations in Europe, Latin American and Africa. It currently operates close to 400 hotels with 60,000 rooms in 30 different countries. NH is a benchmark operator of city hotels in Europe and Latin America. The company is traded in the Madrid stock index exchange since 1998 and is a member the IBEX-35. NH Hotel is a chain operating in both the business and leisure segment while focusing mainly on city hotels. NH Hotel’s main vision is to become the first consumer’s choice by offering a wide range of services and product by always exceeding client’s expectation.

### History

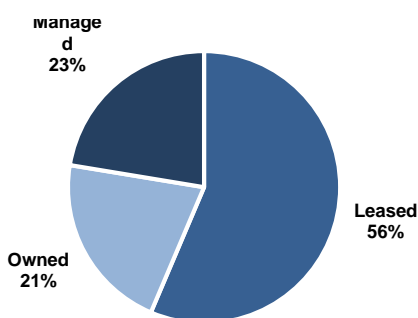
NH Hotel opened its first hotel in 1978 in the city of Pamplona. In 1982, NH Hotel opened its second hotel in Barcelona and marked the beginning of a growing nationwide expansion, which peaked in the middle of the 1980’s. In 1988, NH Hotel was running its operations in Barcelona, Madrid, Pamplona and Zaragoza, establishing the brand as one of the Spain’s leading hotel chains. That same year, Corporación Financiera Reunida S.A (COFIR) became the Company’s major shareholder. In 1995, NH Hotel portfolio accounted of 54 hotels located nationwide. The end of the decade marked a milestone in the development of its strategy in terms of both international expansion and operational activity. First of all, the new company, under the name of NH Hoteles, made an initial public offering on the Madrid stock index exchange in 1998. In addition, NH Hotel established its foothold in Latin America. In 1999, the company began its European expansion by acquiring 19% of Jolly Hotels stake. By now, NH Hotel portfolio was comprised of 88 establishments, and this growth direction was proved by NH Hotel debut in the IBEX-35.

In the 2000’s decade, NH Hotel undertook an aggressive strategy of M&A and openings to increase its global footprint positioning NH Hotel as the European third largest hotel chain. In the year of 2000, the Company acquired Krasnapolsky, a Dutch hotel chain, which doubled the size of its portfolio. With the openings of new hotels in Portugal that same year, NH Hotel’s portfolio accounted 168 hotels with 7,300 employees in 15 countries. In 2001, the company acquired Chartwell, a Mexican hotel chain to increase its presence in Latin America. In 2002, NH Hotel acquired a German hotel chain to continue its international expansion strategy,

**Exhibit 2 – NH Hotel Group Brand Architecture**



**Exhibit 3 - Percentage of Leased, Owned and Managed hotels**



Source : Company Data

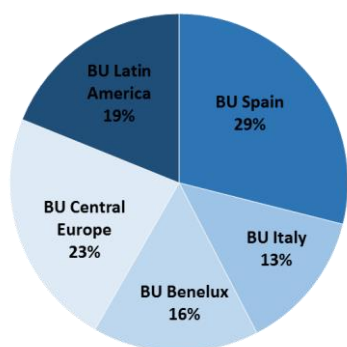
now having operations in Germany, Austria and Switzerland. The years of 2004 and 2005 resulted in entering additional markets such as France, Italy, Romania and UK. By 2007, the hotel chain portfolio was comprised of 341 hotels in 21 countries with a workforce of 19,000 employees of 115 different nationalities. In 2009, NH Hotel agreed on a partnership with Cooperama, a purchasing platform, to improve the sector competitiveness in terms of procurement expenses.

2013 marked the beginning of a new strategy to enhance NH Hotel on-going transformation. The Board of Director agreed on a 5-year plan outlining the new vision and designed to drive the company’s business between beginning 2014 and end of 2018. The main objectives of the plan are to create a new value proposition, improve consumer experience, increase operational efficiency and optimize the hotel portfolio. In regards of the International Expansion Plan, NH Hotel acquired Hoteles Royal in 2015, entering new markets in Latin America such as Colombia, and increasing its presence in Ecuador and Chile. As of 2016, NH Hotel planned to enter the Asian market and has already proceeded a joint venture in China. NH Hotel has strong incentives to develop its portfolio in Asia in the near future. As of 2017, NH hotel is the third largest hotel brand in Europe and one of the world’s top 25 hotel chain operating 380 hotels with 59,000 rooms in 30 countries.

### Business Model

NH Hotel group operates in 30 markets and is divided in five different business units each one comprised a set of countries. The first business unit is BU Spain composed of Spain, Portugal and Andorra. This business unit has a total of 139 hotels for 17,155 rooms. Spain itself accounts for 98% of the total amount. The second business unit is BU Italy, which is solely composed of Italy. The business unit holds 52 hotels for 7,991 rooms. The third business unit is BU Benelux that comprised 52 hotels for 9,192 rooms distributed along the Netherlands, Belgium, France, England, Luxembourg and South Africa. The Netherlands accounts for 71% of the total business unit rooms. The fourth business unit is BU Central Europe including Germany, Austria, Switzerland, Czech Republic, Romania, Hungary, Slovakia, Poland and the United States. The business unit has 76 hotels and 13,390 rooms. Germany is the biggest member and accounts for 77% of the overall unit. The fifth and last business unit is BU Latin America, or also called “Las Americas”, which is composed of 62 hotels and 10,724 rooms allocated through Mexico, Argentina, Dominican Republic, Venezuela, Uruguay, Colombia, Haiti, Ecuador and Chile.

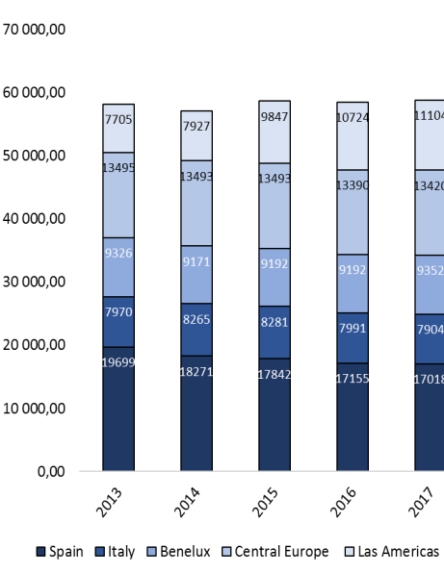
**Exhibit 4 - Rooms weight per BU as of October 2017**



Source : Company Data

NH Hotel Group operates its properties using three models, which mainly depends on the property ownership rights. They own the hotels, lease hotels from the

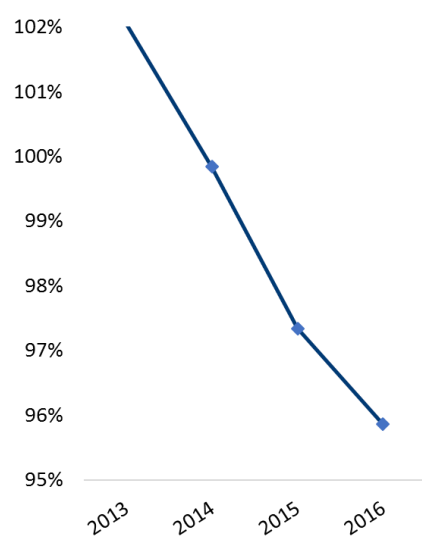
**Exhibit 5 – Number of rooms per BU**



Source : Company Data

owners or manage hotels owned or leased by third parties, see exhibit 3. The revenues and cost are consolidated for the owned and leased hotels. Regarding the managed hotels, they only consolidate the fees they earn by lending the NH Hotel Brand and do not account the property plant and equipment on their balance sheet. NH Hotel Group has structured its hotel portfolio under 4 brands, see exhibit 2. The brand architecture aims at increasing client awareness about the services and products the company offers. The *NH Collection* brand offers premium hotels in major cities and capitals across the European and American continent. This segment's objective is to exceed customer's expectation by offering memorable experiences. The *NH Hotels* brand is mainly composed of three and four-star city hotels. This brand answers the needs of clients whose primary focus is having an excellent location with the best price-quality relation. *Nhow Hotels*, is the most unique brand of NH Hotel Group. It offers designed hotels in major capitals and cities that are unconventional and cosmopolitan, each hotel has its own design and personality. Some of this brand's hotels have earned significant rewards regarding the authenticity of their interior design and both exterior architecture. The final brand specifically answers the needs of families, *Hesperia Resorts* are holiday hotels located in privileged environments.

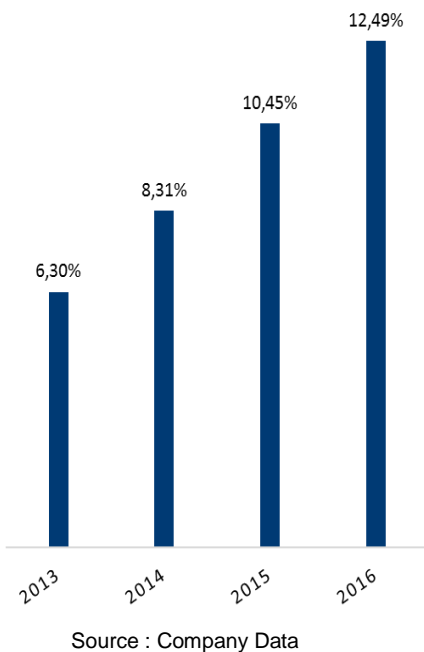
**Exhibit 6 – Opex as % of Sales**



Source : Company Data

NH Hotel Group undertook a 5-year strategic plan between beginning 2014 and end-2018. The main objective of the plan was to improve the financial structure of the company, but also to improve the operational efficiency by reducing operating expenses as seen in exhibit 6. In 2013, the company increased its liquidity and solvency by issuing equity to its new major shareholder (NHA). Moreover, enunciated a new debt structure that would support the new business plan and the asset rotation effort. The initiatives undertaken by NH Hotel Group were to increase the revenues, improving the margins by reducing some operational expenses, increase its growing capacity, and optimizing the organization capabilities. The priority in the first stage of the plan was to create a new brand architecture under the NH Hotel Group umbrella, in which each of these brands has its own operational capabilities and own differentiated experience. The second priority was the partial or total refurbishment of many hotels worldwide, and to progress on the repositioning and rotation of its assets and properties. NH identified where it wanted to be and how, by disinvesting in hotels that were unsuccessful to meet the company's expectations. As of Q3 2017, NH Hotel Group completed the refurbishment of 61 hotels. Furthermore, NH Hotel heavily invested in design solutions to match the lifestyle of their customer but also to increase their target referred as consumer with higher disposable income. As of today, we can already assess the performance of the plan undertaken back in 2014. NH Hotel has carried out an optimization process on both its procurement and operational

**Exhibit 7 – EBITDA Margin**



expenses. Procurement costs have significantly decreased throughout the years due to the partnership with Coperama. From 2013 to 2016, purchase expenses went down by 6%, and could decrease its procurement cost as percentage of sale from 5,78% to 4,61%. In addition, NH Hotel improved its operational efficiency by reducing operational expenses such as lease rentals or external services. Indeed, the company had clear incentives to terminate some leasing agreements that were considered as inefficient. From 2013 to 2016, BU Spain registered a 23% decrease in its lease rentals, while lease rentals for BU Benelux increased by 12%. On one hand, overall external services increased by 7% and 11%, between 2013 and 2015. For the year 2016, on the other hand, it stabilizes and only increased from 503,24 million euros to 503,25 million euros. All the initiatives decided for the 5-year plan were fulfilled, and as a result, it has enabled NH Hotel to increase its revenue and profitability, and significantly improve liquidity and efficiency in its expenses. As seen in Exhibit 7 the consolidated EBITDA margin has increased from 6.30% to 12.49% from 2013 to 2016. In addition, due to its operating improvement, the rating agency Moody’s has upgraded NH Hotel credit rating from B2 with stable outlook to B2 with positives outlook, decreasing borrowing cost and , as a result, interest expenses (exhibit 8). In Q3 2017, NH Hotel is designing a new strategic plan upon the termination of the 5-year strategic plan ending in 2018.

### Shareholder structure

All 350,271,788 shares of NH Hotel Group SA, are ordinary and of the same class and confer their holder one voting right. The majority of shares are free floating (58.8%), while 2.15% are treasury shares and the rest being concerted action. The major shareholder is HNA Group, which owns a total of 29.5% of all NH Hotel Group shares. Moreover, they maintain treasury stock on their balance sheet in case NH Hotel needs to cover a potential distribution of shares under the next strategic plan.

**Exhibit 8 – Interest Expenses (EURm)**

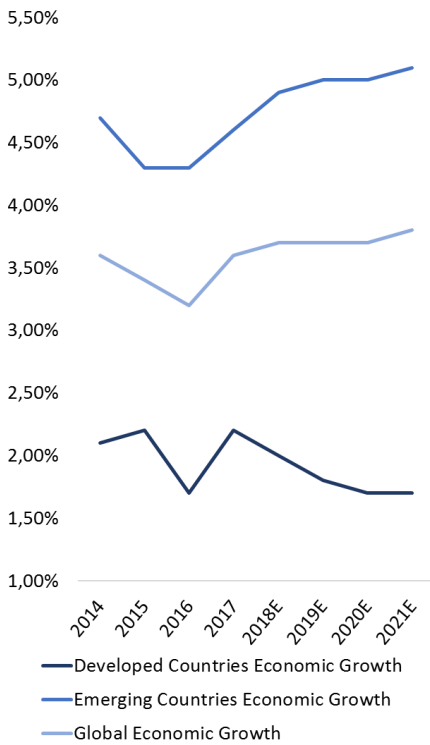


### Business Unit Analysis

NH Hotel operating activities are segmented in 5 different business units due to the different growth profiles of the countries in each of these business units. In Business unit Spain, Italy and Benelux, NH Hotel Group is well positioned and holds a big part of the market share, even though the company expects to increase its expansion in these two markets. Business Unit Central Europe and Latin America are markets in a growing phase, as these countries do not have a mature hotel sector.

**Exhibit 9 – Global Economic Growth**

▪ **Global Macroeconomic environment**



Source : IMF

The year of 2016 registered a steady global economic activity growth of 3.0%, being the lowest year since the global crisis of 2009. The lower growth impacted the level on investment globally, which decreased as well. Also, the level of debt increased worldwide as the cost of borrowing is very low due to Quantitative Easing and the economic stimulus still in place in major developed countries. Moreover, commodities prices have dropped significantly impacting exporting countries whose inflation growth staid below the 1% level. 2016 was also marked by geopolitical events that impacted the developed economies such as Britain voting to leave the European Union or North Korea conducting missile and nuclear tests. 2015 registered an economic activity growth of 3.1%. Also, it was a year of geopolitic conflicts and major events, such as ISIS terrorist strikes on three continent, Russia intervention in Syria and the refugees crisis in Europe, which impacted the markets and the economic environment.

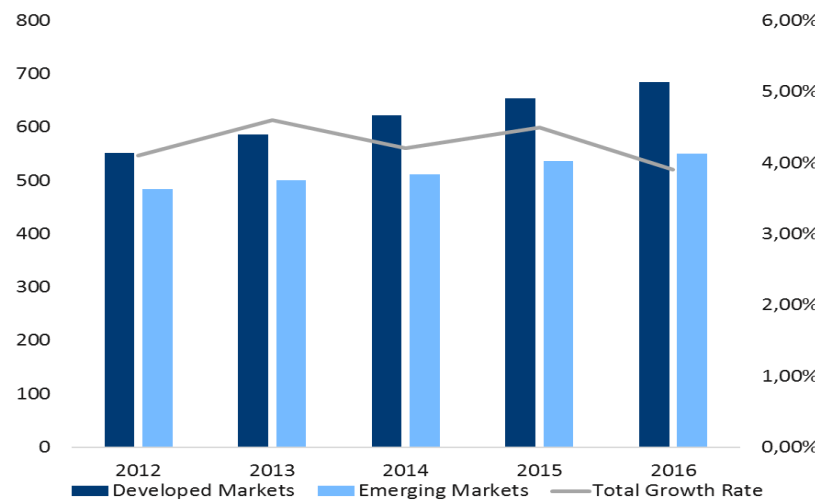
As seen in the exhibit 9, for the year 2017, the world economy is expected to rise at a 3.6% growth with a greater increase for 2018 to 3.7%. On one hand commodities price are expected to rise, impacting significantly exporting economies with a possible scenario of generating higher inflation. On the other hand, with an increase in growth, developed countries' Central Banks will slowly decrease quantitative easing and increase interest rates. As an example, the US Federal Reserve initiated the process of passive quantitative policy in October, as the recent trends in inflation supports an interest rates hike. In Europe, the ECB has announced its intention to reduce its bond-buying program from January 2018 from 60 billion euros per month to 30 billion euros. The developing markets such as Asia and Latin America will be the main drivers for global growing economy in the near future. These economies are expected to grow at a significant rate of 4.4%.

▪ **Global sector overview**

The travelling and tourism sectors have encountered continued growth since 2009, even though it registered some non-recurent shocks. According to UNWTO, international tourism arrivals accounted for 1.235 billion tourists in 2016, which increased by 3.9% from 2015. It is the seventh consecutive year of growth (around

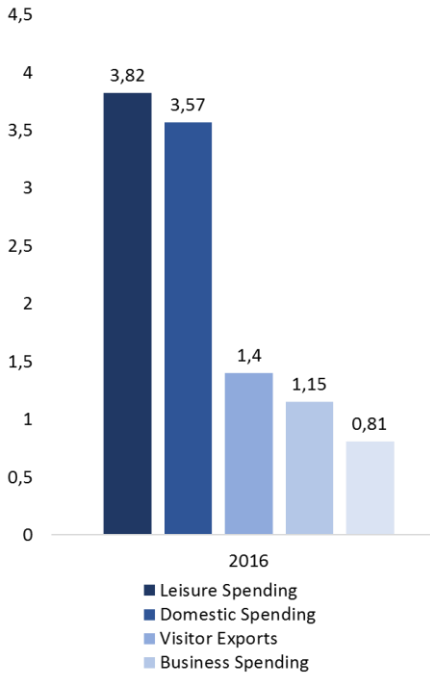
4% stable growth) since the 2009 economic crisis, see exhibit 10. Also, 2016 shows a similar trend as past years in terms of growth mainly due to higher travel

**Exhibit 10 - International tourist arrivals (Million)**



Source : UNWTO

**Exhibit 11 – Contribution of travel and tourism to the global economy in 2016, by type of spending (US Trillion)**

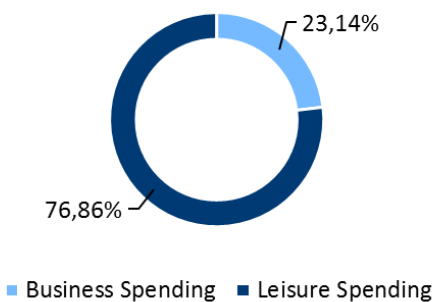


Source : UNWTO 2016 report

demand in both the business and leisure segment, but also due to the lower oil prices directly impacting air transportation prices. However, the overall growth was not shared between all destinations. Some destinations encountered a challenging year because of security threats and natural catastrophes (Africa, Central America), which on the other hand benefited some destinations (Southern Europe, Central Europe, Asia-Pacific) reporting robust results. Asia-Pacific is the leading growing market, which registered around 9% increase in international arrivals, followed closely by Africa with an 8% increase from last year. Americas and Europe, however, experienced a slower growth of 3% and 2% respectively. Among the tourism sector, the leisure segment contributed to more than half of the overall international tourists arrivals and will keep on maintaining its dominant position. Regarding forecast of international tourist arrivals, estimates have an expectation of increasing by 3% yearly, with a peak in international tourists arrival of 1.8 billion approximately in 2030. However, not all economies will benefit from the 3% yearly forecasted growth in international tourism arrivals. Indeed, the emerging markets are expected to grow at rate of 4.3% annually, while in more mature markets and developed economies, the rate is expected to be 2.2% annually. Consequently, emerging markets arrivals will exceed the developed market arrival by 2020. To illustrate the expected growth in emerging countries, by 2030 international arrivals in this countries will account for around 55% of the global international arrivals, compare to 45% for the developed markets.

The tourism segment currently speaks for approximately 7% of all traded goods in services globally, representing about 10.7 trillion US Dollars in 2016 (exhibit 11). Regarding the business and leisure segment only, the leisure segment represent 76,86% of spending in 2016 (exhibit 12). Presently, tourism is the third greatest sector in terms of goods and services traded. It is ranked before fuels and chemicals, but ahead of the automotive and food industries. In many developing economies, the tourism sector is the first export category of services and goods. In the last decade, the travelling and tourism sector accomplished an exponential growth and became one of the most growing industry in the global economy.

**Exhibit 12 – Share of Business and Leisure Spending**

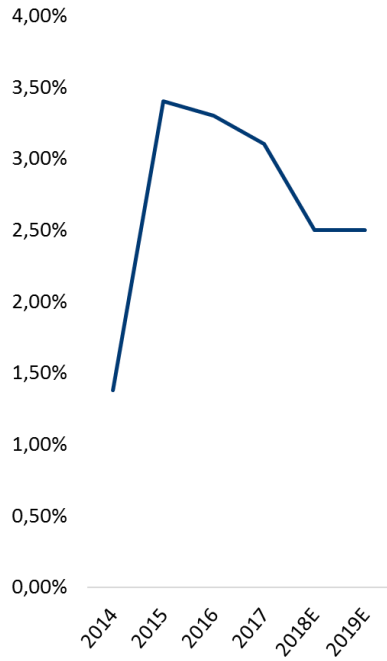


Source : UNWTO 2016 report

▪ **Competitors**

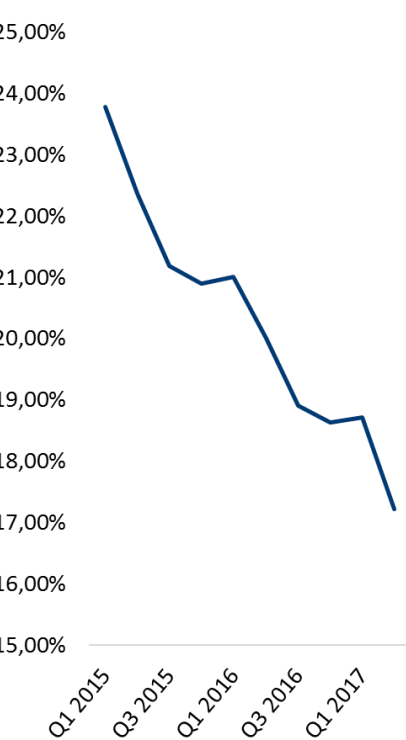
**InterContinental Hotels Group** – Based in London UK, this hotel chain was founded in 1946. Nowadays, it is one of the biggest and most famous hotel chains in the world. It currently operates in more than 100 countries with 12 brands with each one of them operating on its particular segment. The group is quoted on the London Stock Exchange and has a current market capitalization of 9.2 billion euros. InterContinental Hotels Group makes most of its revenue from its business unit in America, where it holds most of its operation (64% of total rooms), followed

**Exhibit 13 – Spain GDP Growth Rate**



Source : IMF

**Exhibit 14 – Spain Unemployment Rate**



Source : IMF

by Europe and Asia. IHG has strong incentives to expand more in America and also concentrate on Asia-pacific.

**Accor SA** – Accor Hotel was founded in 1967 and operates in 95 countries with a portfolio of 4200 hotels. It operates under 20 well-known brands, which offers from city hotels, to most prestigious boutique hotel. Accor SA is quoted on the Paris Stock Exchange with a current market capitalization of 12.17 billion euros with revenues of 5.631 billion euros. Looking into the future, Accor will develop its portfolio in Asia-Pacific to increase its footprint, with expectation of being half of the total rooms in the expansion pipeline.

**Marriott International** - Marriot is a hotel chain present in more than 110 countries. It has a current market capitalization of 38.85 billion euros. Through multiple acquisitions the brand is recognized as holding the most compelling range of brands and properties in the hospitality sector. Moreover, Marriott is expecting to increase its room capacity by 7% in 2017 in a balanced expansion strategy.

**Hilton Worldwide Hotels** - Hilton Hotels, founded in the USA in 1925, is considered as one of the biggest hotel chains worldwide. It operates with 14 different brands and more than 47000 hotels in 100 countries. It has a current market capitalization of 20.36 billion euros. Hilton makes most of its revenues in America (71% ) and Asia (10%). Hilton Hotels I expected to process its expansion plan mainly in Americas and Asia-Pacific.

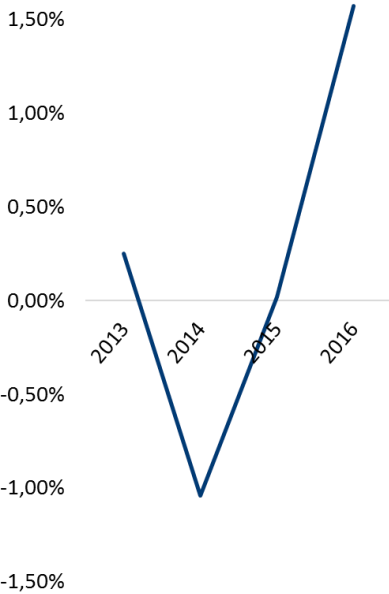
NH Hotel Group faces competition from several international hotel chains . However, its portfolio is mainly located in Europe, Spain and Latin America with its specific targeting clients. Moreover, NH Hotel operates on very niche segment such as design city hotel with its NH collection brand, or resort hotel on the upscale segment.

### Business Unit: Spain

Business Unit Spain is comprised of 3 countries: Spain with 133 hotels, Portugal with 3 hotels and Andorra with 1 hotel. The overall business unit number of rooms amount to a total of 17,018. Spain’s business unit is one of the most matured segment of NH Hotel Group. The expectation regarding this business unit are fairly stable with an economic recovery and a stable security situation for both Spain and Portugal.

**Exhibit 15 – Spain Inflation Rate**

▪ **Macroeconomic environment**

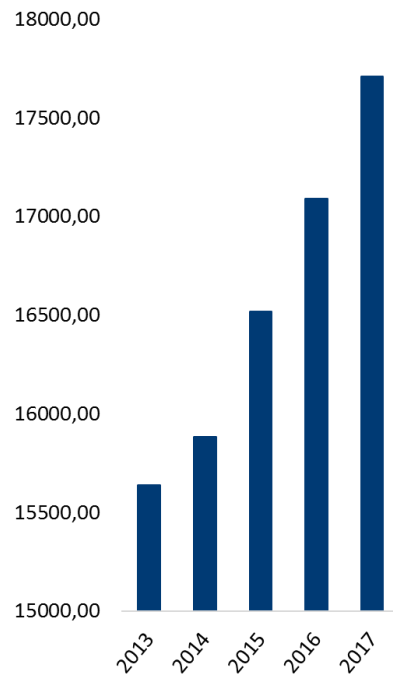


Source : IMF

As seen in exhibit 14, Spain’s economic growth remained strong in 2016 with a GDP growth of 3.3%, and holds expectation of slowly decreasing and stabilizing around 3.1% GDP growth for the year of 2017. From 2017 to 2020, GDP growth will tend to slower its pace to stabilize around 2.5%. The recovery remained strong and resilient mainly due to past reforms. Inflation is also experiencing an increase since 2013, from 0,25% to 1,57% in 2016 as as observed in exhibit 16. Despite the fact that the country has experienced strong consumption, investments and exports, it still needs to address youth and long-term unemployment rate issue. Spain is among the highest in Europe regarding unemployment rate with 17.2% as seen in exhibit 15, even though the economy heals. Moreover, the public debt remains high as it is currently around 99.4% of GDP. The recovery remains strong and resilient mainly due to past reforms. In addition, an important domestic event happened creating tensions at the political level. Catalonia voted its independence and led to some tensions, which will impact the consumer and business confidence. Currently, the government controls the situation and we do not expect a meaningful impact in the future years.

**Exhibit 16 – Spain Hotel Retail Value (EURm)**

Portugal economic situation is also slightly recovering, GDP grew by 1.6% from 2014 to 2015 and by 1.4% from 2015 to 2016. Portugal is currently in a continuing momentum. As an example, the country’s external factor grew at faster pace that in the recent years following the 2009 crisis. In fact, Q3 2017 has seen exports outpacing the imports. Moreover, the unemployment rate is currently at the lowest since the financial crisis. Also, good economic prospects have increased demand for Portugese government debt as an upgraded credit rating is expected to occur in 2018.

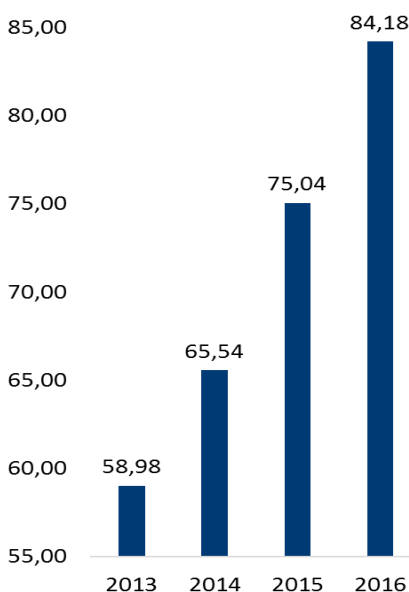


Source : Euromonitor International

▪ **Sector overview**

As of today, Spain is third most visited country in the world behind the United States and France. The tourism sector account for more than 11% of Spain’s GDP. Spain’s attractiveness is mainly due to safety reasons and economic recovery. Competitor countries such as Turkey and Egypt are slowly recovering compared to 2016, while tourists demand kept on increasing in Spain in 2017 as the country offers a diverse range of solutions for leisure and business tourists who see the country as more stable. Also, terrorism in other Western European destination such as France, UK and Germany enhanced tourism in Spain. As a result, the number of international tourists in Spain grew by 10.3% in 2016. As of November 2017, Spain’s hotel retail value registered a 4% increase and all players in the tourism industry are performing better than in 2016, when looking at exhibit 16.

**Exhibit 17 – BU Spain Revenue per Average Room**



Source : Company Data

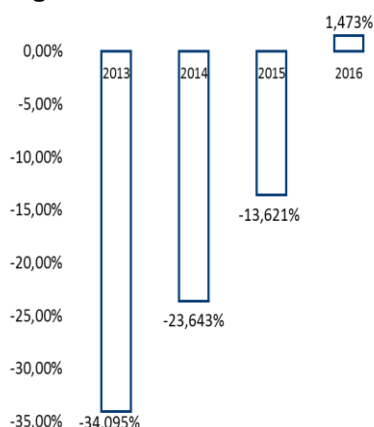
From 2013 to 2016 Average Daily Rate grew by 13% annually on average, and Occupancy rate grew from 57% to 66%. As a result, the World Travel and Tourism Council forecasted a 2.7% yearly increase in number of tourists from 2017 to 2020.

Regarding travel and tourism in Portugal, the sector contributes to 16.6% of GDP in 2016 and is expected to grow by 2.6% in 2017. By 2027, the travel and tourism sector is forecasted to contribute approximately 18.5% of GDP. In terms of international tourists arrivals, the country experienced a 13% increase from 2015 to 2016 exceeding the 10 millions visitors being the sixth record year. The total hotel retail value grew by 17%, which amount to 3.07 billion euros compared to 2.9 billions euros in 2015. Portugal enjoys the same quality as Spain, being one of the safest destination with some of the lowest prices on consumption products.

▪ **Performance Analysis**

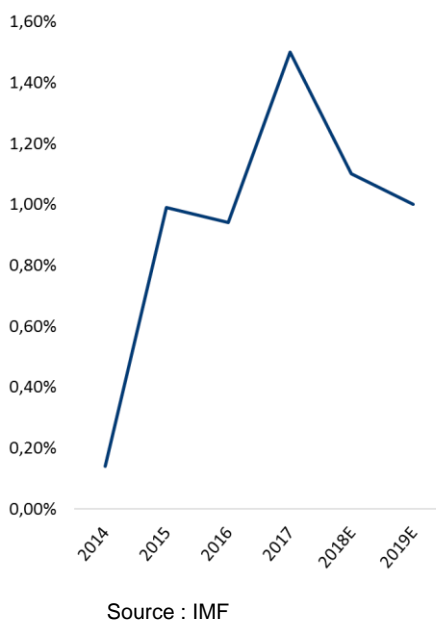
NH Hotel Spain business unit registered the second most significant revenue growth among the five business units from 2013 to 2016. Revenues grew by 8.32% CAGR with an increase record of 10.2% in 2016. Revenues increased from 285.3 million euros in 2013 to 361.4 millions in 2016 (+26.7%). This robust growth in turnover is mainly explained by the higher activity of the business unit through a higher tourists demand for Spain and Portugal, and an increase in Revenue per Average Room (RevPar) over the period, which is a combination of both Average Daily Rate (ADR) and Occupancy Rate. From 2013 to 2016, RevPar grew by 12.6% on average annually (58.9 in 2013 for 84.2 in 2016) due to an increase in ADR of 9,05% per year on average and a growing occupancy rate (+3.7% average yearly increase), as seen in exhibit 17. Regarding operational efficiencies, Spain business unit reduced considerably its operating expenses compared to revenue growth due to cost control and efficiency plans. In fact, from 2013 to 2014 operating expenses declined by -4.51%, with a small increase of 1.05% between 2014 and 2015 and eventually another decline of -3.24% from 2015 to 2016. The increase of operational expenses in 2015 is simply due to the increase in activity (occupancy rate increased by 5.95% that year). As observed in exhibit 18, EBITDA margin pushed up from -34.09% in 2013 to 1,47% in 2016 being the first year BU Spain obtains a positive EBITDA margin. Among all the operating cost, procurement and lease rentals are the two items experiencing a decrease since 2013. On one hand, procurement cost decreased from 24.1 million in 2013 to 19.6 millions in 2016 mainly due to the partnership with Coperama. Lease rentals, on the other hand, decreased from 85.05 million euros in 2013 to 68.9 million euros in 2016 explained by the removal of many leases seen by the management as inefficient. Overall, BU Spain's operating expenses have experienced a 6.6% decrease since 2013 and is expected to follow the same path

**Exhibit 18 – BU Spain EBITDA margin**



Source : Company Data

**Exhibit 19 – Italy GDP Growth Rate**



for the future. Regarding its expansion plan, NH Hotel Group signed 252 rooms construction between 2018 and 2020.

### Business Unit: Italy

Business unit Italy is solely comprised of Italy. It is composed of 51 hotels with 7,904 rooms.

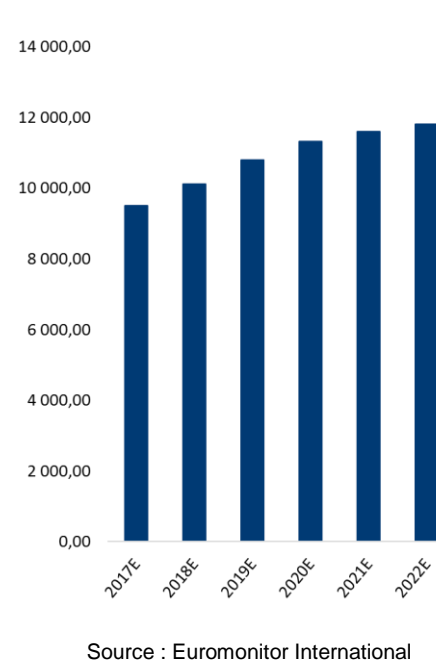
- **Macroeconomic environment**

Italy’s economic recovery increased its pace in 2017 thanks to domestic and external demand. At Q3 2017 Italy’s GDP grew at 1.5%, while in 2016 it grew by 0.9%. In 2017 GDP is currently growing at the fastest annual rate over the last 6 years, as seen in exhibit 19. The industrial sector saw a higher expansion due to growing investment. Moreover, the banking sector’s risk declined and S&P Global Ratings upgraded Italy’s credit risk from BBB- to BBB. Furthermore, growth was led by both stonger investments and a rising employment growth, which pushed up the business and consumer confidence. However, despite a steady momentum in GDP growth, the heavy public debt to GDP (132% of GDP) increased. The unemployment rate remains stable since 2012 at a level of 11.2% with expectation of a steady decline to 10.5% in 2019. GDP forecast for Italy is expected to increase at 1.1% in 2018 and 1.0% in 2019. Italy experienced a negative inflation in the first half of 2016, while at the end of the year inflation increased close to 0.9%, which peaked to 1.8% in April 2017. In terms of forecast, it is expected to remain stable for the year 2018 around 1.5%, while experiencing an increase in 2019 to 1.8% reaching 2.3% in 2020.

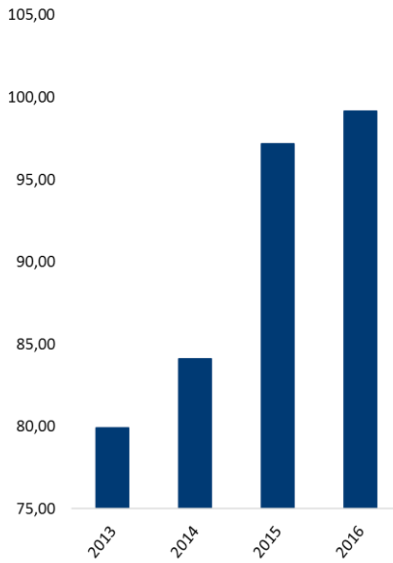
- **Sector overview**

Italy remains one the most attractive country in the world for tourists. Italy proposes a wide range of tourists offer, such as the art cities, culture and history, authentic food and wine, and woderful natural environment from mountains to the sea. From UNWTO, Italy is currently ranked at the 5<sup>th</sup> most visited country in the world. In 2016, 52.4 million international tourists visited Italy, which increased by 3.2% from 50.7 million in 2015. From 2014 to 2015, international arrivals increased by 4.4%. This robust growth in international arrivals is mainly due to the attractiveness of the country, and more importantly, the increase in security concerns from North-African countinues to drive flows to Italy. Moreover, recent terrorist attacks since 2015 in other european countries increase the flow of tourists in Italy. Italy’s hotel retail value grew by 1% in 2017 pushed up by online sales that grew by 5% amounting to 9.5 billions euros. As observed in exhibit 20, online sales are expected to increase on a robust rate of 4% CAGR reaching 11.8 billions euros

**Exhibit 20 – Italy Online Sales Forecast (EURm)**



**Exhibit 21 – BU Italy Revenue per Average Room**



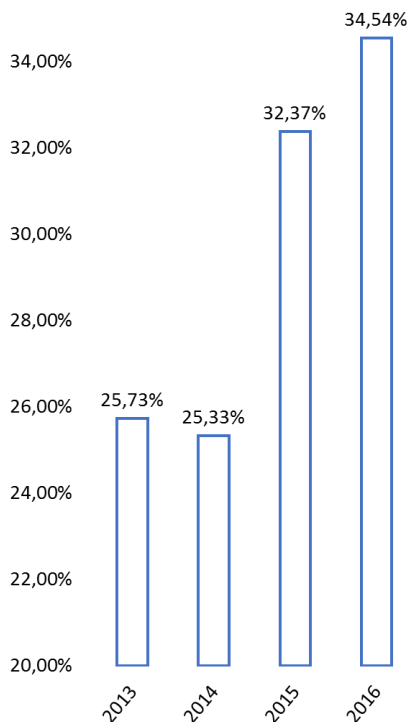
Source : Company Data

in 2022. Hotels retail value is expected to grow from 24.62 billion euros in 2017 to 25.11 billion euros in 2022. From the WTTC, the travel and tourism sector contributed to 11.1% of GDP in 2016, a total of 186.1 billions euros. It is forecasted to rise by 2.4% in 2017 and 1.4% annually until 2027 amounting to 219.9 billions euros and 11.9% of GDP. The industry also support 5.5% of total employment in Italy, which is forecasted to to 6.7% in 2027. The leisure segment accounts for a bit less than 75% compare to the business segment at 25.7%. However, business spending is expected to increase by 4.8% in 2017 compare to the relatively small growth of 1.2% in 2016. The overall international tourists arrivals will, therefore, rise at a steady rate pushed up by economic recovery and the well positioned situation of Italy in terms of attractiveness.

▪ **Performance Analysis**

NH Hotel Group Italy business unit is the third business unit in terms of revenue growth. It registered an annual average growth of 7.2% between 2013 and 2016, with a peak of 17.5% growth in revenues in 2015. The year of 2016, Business unit Italy experienced a decline in its revenue of -0.21% mainly explained by the the decrease in occupancy rate. BU Italy’s revenues were 217.7 million euros in 2013 compared to 266.4 millions euros in 2016, an increase of 22.4%. This growth in revenues is mainly attributable to the increasing attractiveness of Italy as a top worldwide touristic destination. This led to a rise in RevPar of 7.61% on average annually as it grew from 79.9 in 2013 to 99.1 in 2016, as seen in exhibit 21. Average Daily Rate also registered a robust growth throughout the period, as it grew from 126.4 to 151.6 (+19.9%). However, Occupancy Rate moderately grew from 63.2% to 65.4% with a decline from 2015 to 2016 of -0.40%. The decline is due to the fact that some of the most prestigious NH Hotel Group hotels in Italy (Turin, Rome) were in refurbishment for more than 6 months. In terms of efficiency plans and reduction of expenses, Italy performed well over the period. By looking at exhibit 22, the EBITDA margin considerably increased by 8.8%, from 25.7% to 34.5% from 2013 to 2016. It is mainly explained by the increase in revenues rather than a decrease in operating expenses. Overall operating cost increased by 8.1% from 2013 with some considerable increase in external services (+18.5%) and staff cost (+7.2%). The procurement and lease rentals expenses remained quite stable over the period with a decrease in 2016 for procurement cost related to the lower activity of NH hotels during that year. Lease rentals oscillated between 41.01 million euros in 2013, 43.86 million euros in 2015 to 40.3 million euros in 2016. A pattern cannot be identified over the period, however, BU Italy will make some effort regarding inefficient lease rentals agreement to go below the 40 million euros in the future. As part of the expansion plan, Italy BU has signed in 2016 the

**Exhibit 22 – BU Italy EBITDA margin**



Source : Company Data

construction of 2 leased and 1 managed hotels with 394 rooms between 2018 and 2020.

### Business Unit: Benelux

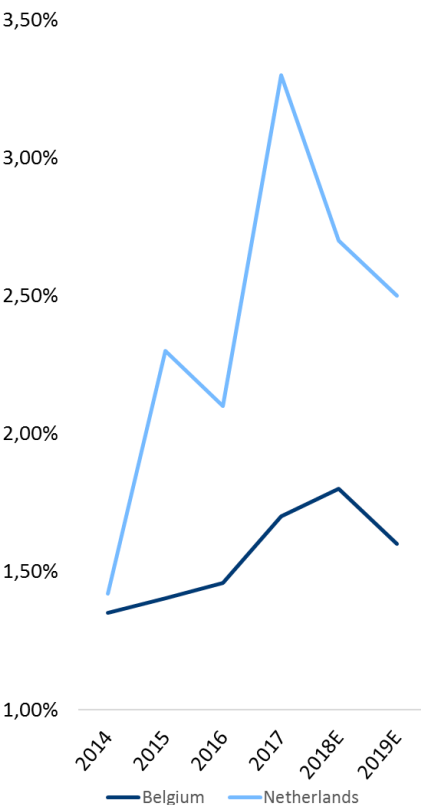
NH Hotel Group Business Unit Benelux is composed of six countries, Holland, Belgium, France, Luxembourg and South-Africa. The Business unit holds 53 hotels for a total of 9,484 rooms. The Netherlands and Belgium are the biggest player of the BU accounting for 6,841 and 1,619 rooms respectively. Benelux BU is the third most mature markets of NH Hotel Group after Italy, with a robust growth and incentives from management to increase expansion on this BU. As per rooms' weight purpose, the report only analyze the two main countries in the business unit, the Netherlands and Belgium.

- **Macroeconomic environment**

The Netherlands registered a GDP growth of 2.3% in 2015, 2.1% in 2016 and is expected to grow at 3.3% by the end of 2017(exhibit 23). GDP of Netherlands is projected to remain strong in 2018 (+2.7%) and 2019 (+2.5%) due to private consumption increase, strong employment growth and a lower public debt of around 60% of current GDP. Business investment is extremely dynamic and driven by a stronger economic and consumer sentiment, and a growing foreign demand supported by ECB monetary policies. Even though Netherlands has one of the lowest unemployment rate (6.9% in 2015, 6.0% in 2016) in Europe being the 7<sup>th</sup> ranked country, the country has clear incentives to lower the rate below 4.0% in 2020. Household consumption growth is projected to attain its new high by 2018, mainly driven by a robust growth of real wages and favourable labour market conditions. Inflation is currently low (0,1% in 2016) and is expected to grow further to 2% in 2020 due to higher consumption and business investment. The main risk regarding the Netherlands is the Brexit. In fact, the country is the most exposed European country to the exit of UK from the European Union since it has a strong financial relationship with this country.

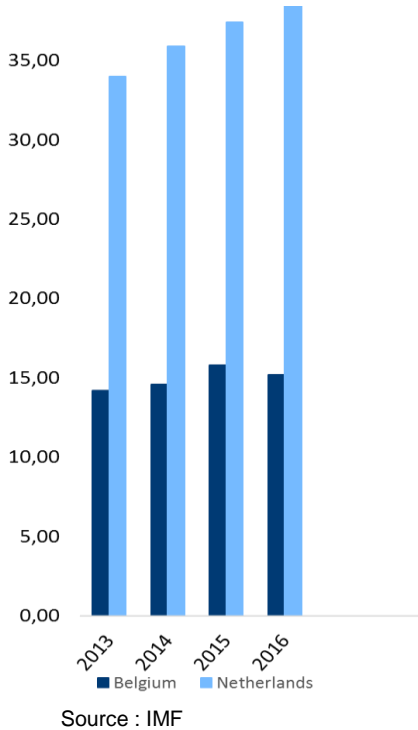
Belgium, the second most important market of the Business Unit, registered a robust growth since 2015. GDP growth in 2012 and 2013 was declining, while since 2014 GDP growth has increased. In 2014, GDP growth was 1.65% while it was 1.19% in 2016 (exhibit 23). GDP growth forecast is projected to stabilize around 1.6% until 2020. Similar to the Netherlands, GDP growth most important driver is private consumption driven by heavy government and private investment. The inflation rate in 2016 was 1.77% and will experience a slow increase with forecast of 2.01% in 2020 due to a tightening labour market and an increase in real wages. The labour markets is doing fairly better in 2016 with an unemployment

**Exhibit 23 – Belgium and Netherlands GDP Growth Rate**



Source : IMF

**Exhibit 24 – Belgium and Netherlands Number of Arrivals in Tourist Accommodation (Million)**

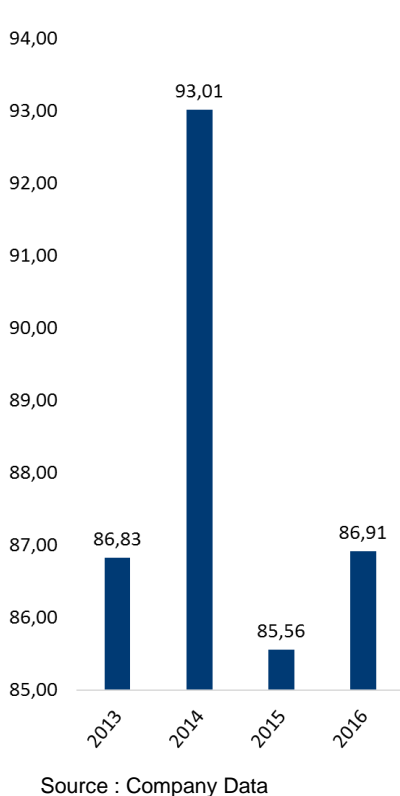


rate of 7.5% in 2017 compare to 8.6% in 2014. Projections from IMF tend to lower the unemployment rate to the significant level of 7% by 2021. Although Belgium has a public debt to GDP of 105%, growth will remain stable as private consumption will persist to be the main driver supported by lower unemployment rate and cuts in labour taxation.

▪ **Sector overview**

The Netherlands tourism and travel sector contributed to 5.2% of GDP in 2016 (35.9 Billion euros) and is expected to rise by 5.4% in 2017. From WTTC, the contribution will rise by 2.3% p.a. to 47.3 billion euros in 2027 accounting for 6% of total GDP. The tourism sector also boosts employment in the country, since the jobs in tourism sector have increase by 3.5% in 2015. Moreover, according to Statistics Netherlands (CBS), tourists expenditure was up around 5% from 2015 to 2016 rising to a total of 72,7 billions euros. As the tourism sector is becoming more important to the economy in the Netherlands, the government aims to boost the number of international tourists visiting the country. The number of tourists have been increasing on a robust pattern. In 2017 the number of tourists arrival in accomodation is projected to increase to 39.4 million from 37.4 million in 2015 (exhibit 24). Even though recent terrorist attack in major European cities had significant impact on the tourism sector, forecast anticipates a rise in number of tourists arrival.

**Exhibit 25 – BU Benelux Revenue per Average Room**

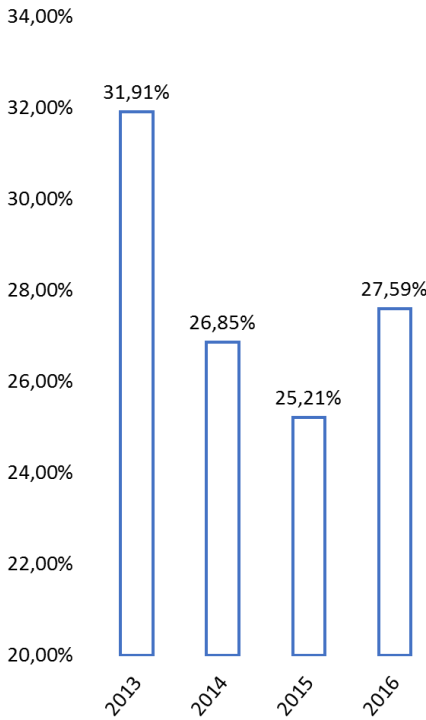


In Belgium, total contribution of tourism sector to GDP was 5.6% in 2016 amounting to 23.8 billion euros. It is forecasted to increase by 4.0% in 2017, and at a rate of 2.5% pa until 2027 to attain 31.6 billion euros. The tourism expenses in leisure segment accounted for 73.6% of the total tourists spending. In 2016, 15.2 million international tourists visited Belgium, compare to 15.8 million in 2015 (exhibit 24). In fact, since the terrorist attack, the country's tourism sector and overall economy were affected causing a loss of 2.4 billion euros of the GDP. As an example, after the attacks, the unemployment rate in the catering and hospitality sector registered an increase of 186% and 157% respectively in 2016. The Belgium, to tackle this issue, undertook a series of partnership with other countries, such as China, to enhance the number of international tourists in the near future. Eventually, even though Belgium's economy and more importantly its tourism sector were impacted by terrorist attacks, the country is reacting with significant policies and initiatives to overcome the decline in visitors.

▪ **Performance Analysis**

Business Unit Benelux has experienced the slowest growth among all business unit. From 2013 to 2016, revenue grew from 266.8 to 276.7 millions

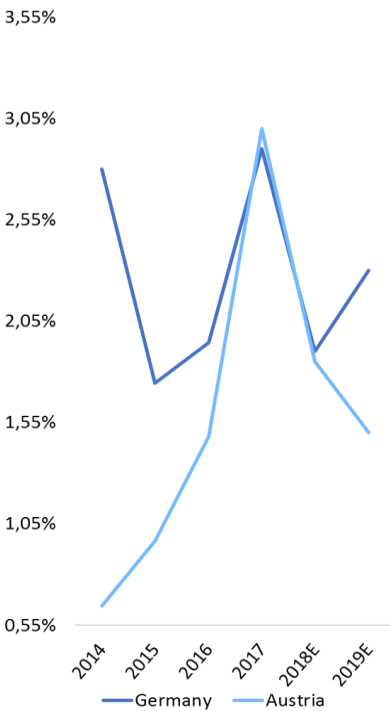
**Exhibit 26 – BU Benelux EBITDA margin**



Source : Company Data

euros, which represent a 3.72% increase with a CAGR of 1.29%. The business unit encountered a decline in revenue growth in the year 2014 of -3.8%. The decrease in revenue is only attributable to the fact that the business unit had less available rooms due to refurbishment of most of the NH collection brand hotels as part of the strategic plan. In 2013, it held 8,419 rooms while in 2014 it held 7,558 rooms. This non-availability significantly impacted the revenues of 2014. However, revenue drivers registered a robust growth from 2013 to 2014 with a slight decrease in 2015 and pushed up in 2016. Average Daily Rate grew from 129.6 euros in 2013 to 132.3 in 2016 at a CAGR of 0.77%, while Occupancy Rate registered a decline from 67% in 2013 to 65.7% in 2016 hitting its lowest in 2015 at 63.5%. Business unit Benelux is the only BU that has registered a negative CAGR over the period for occupancy rate (-0.59%). This particular deceleration in the growth of revenue drivers is mainly due safety reason in Bruxelles impacting the activity, a stonger competition in the countries comprised in the business unit, and refurbishment conducted in most major cities of the BU (Bruxelles, Amsterdam, Paris and London). Regarding the operational efficiency (exhibit 26), Benelux business unit still needs to make some effort. In fact, it has seen its EBITDA margin decrease from 31.9% in 2013 to 27.7% in 2016, with its most significant decline in 2015 to 25.2%. Total operating expenses has gone up by 3.45%, 4.9% and 1.9% in 2014, 2015 and 2016 respectively. We can identify a clear incentives from management to lower the growth of operational cost as part of the strategic plan, even though all the costs present in the operational expenses increased except for procurement costs. Lease rentals have increased by 14% from 2013 to 2016 as part of the repositioning plan. External services also experienced a significant increase of 16% from 2013 to 2016 (67.9 million to 71.9 million). Procurement costs is the only expense that decrease by 8% due to the partnership with the purchasing platform. Regarding the expansion plan, the business unit has signed 740 news rooms for the Netherlands, 180 for Belgium, 317 for France and 190 for England.

**Exhibit 27 – Germany and Austria GDP Growth Rate**

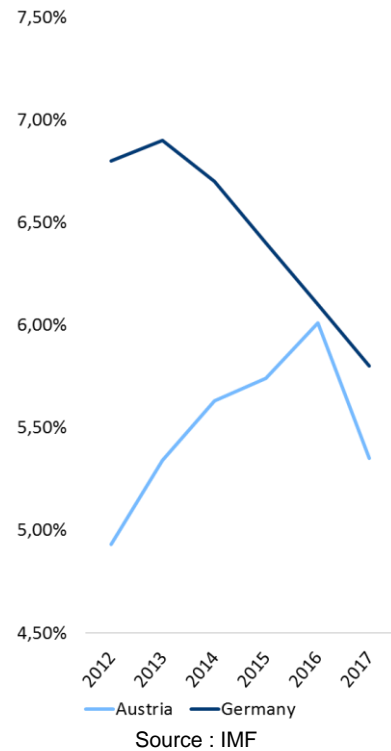


Source : IMF

### Business Unit: Central Europe

NH Hotel Group Central Europe business unit is the first business unit in terms of revenue and second largest in term of number of hotels and rooms. It is composed of 8 countires, Germany, Austria, Czech Republic, Switzerland, Romania, Hungary, Poland and Slovakia. BU Central Europe has a total of 13420 rooms for 75 hotels. The most important market is Germany with a total of 10,365 rooms accounting for 77.2% of the total business unit. The second most important market is Austria with 1,183 rooms and accounting for 8.8% of the total business unit rooms. For the purpose of the report, only Germany and Austria will be analyzed.

**Exhibit 28 – Germany and Austria Unemployment Rate**



▪ **Macroeconomic environment**

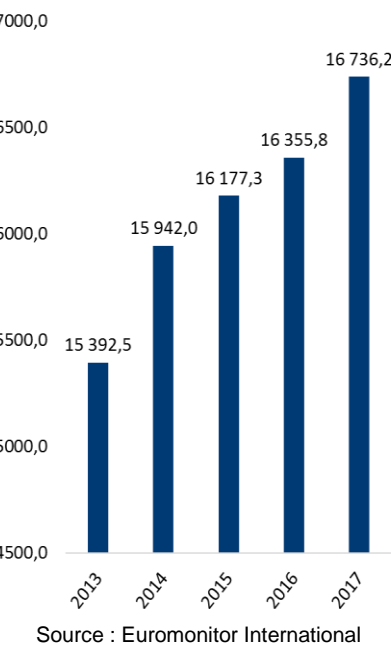
Since 2013, Germany's GDP registered a robust growth. Beginning 2013 GDP was negative, while it grew to 2.8% in 2014 and oscillating between 1.3% and 1.8% until 2016 (exhibit 27). Until Q3 2017, GDP growth experienced a steady increase to 2.9%. However, IMF project GDP growth of Germany to stabilize at a moderate pace around 1.9% for 2018, which will tend to push up to 2.3% by 2020. Therefore, growth is projected to ease in the future even though it still remains solid as employment rate is set to expand further. Moreover, a stronger economic activity in the euro area will boosts exports and investments, but as the euro appreciate and wages increase, it may decrease the competitiveness of Germany. Furthermore, it will make consumer price inflation to increase. In fact, inflation decreased from 2013 (1.9%) to 2015 (-0.45%) and bounced back to its peak level in the beginning of 2017 (2.1%), as of today inflation is at 1.8%. IMF estimates inflation rate of Germany to stand at 2.10% for 2018 and is projected to be around 2.4% by 2020. Germany unemployment rate has experienced a robust decline since 2010. It dropped from 8% to 4.16% as of august 2017 (exhibit 28). IMF forecasted the unemployment rate to slightly increase to 4.2% to 2019 and declining again by 2020 to 4.1%. As a result, the German economy will remain strong in the future with great development opportunity in the hospitality sector.

After a strong decline from 2011 to 2013, GDP of Austria experienced a robust growth proejected to peak in 2017. In 2013, GDP growth was 0.12% while in 2016 it was 1.48% with expectation of rising to 3% in 2017 (exhibit 27). Economic activity of Austria is set to remain strong in the near future with rebounds in investments and exports. However, it is expected to increase on a lesser extent for the following year with projection of 1.85% for 2018 and a stable growth around 1.5% until 2021. Unemployment rate will continue to lower with expectation of being at 5.9% in 2018 and around 5% in 2020, even though it oscillated between 6% in 2013 to 11% in 2016. As of November 2017, unemployment rate is around 8%. Inflation remains higher than any other euopean countries since it is mainly driven by prices in sectors with little impact on international trade. As of November 2017, inflation rate was at 2.2% with expectation of growin to 2.3% by the end of 2018. By 2020, it will stabilized around 2.2% from IMF reports.

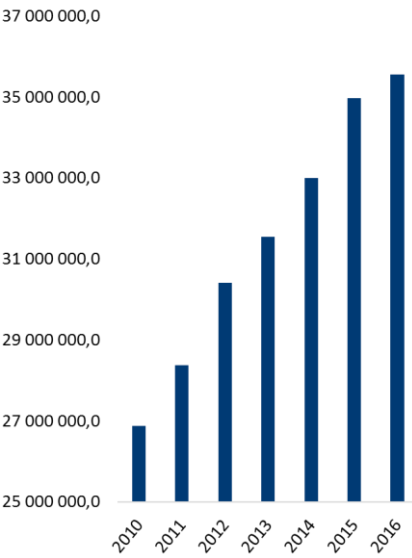
▪ **Sector overview**

Germany's tourism sector contribute to 10.8% of total GDP in 2016, which represents 337.7 billions euros. It is forecasted to be at 12.4% in 2027 for 429.6 billion euros. Germany international tourism arrival experienced a steady increased since 2009, after the financial crisis. In 2009, the country received 24,223 million tourists,

**Exhibit 29 – Germany Hotel Retail Value (EURm)**



**Exhibit 30 – Number of Tourism Arrivals in Germany**

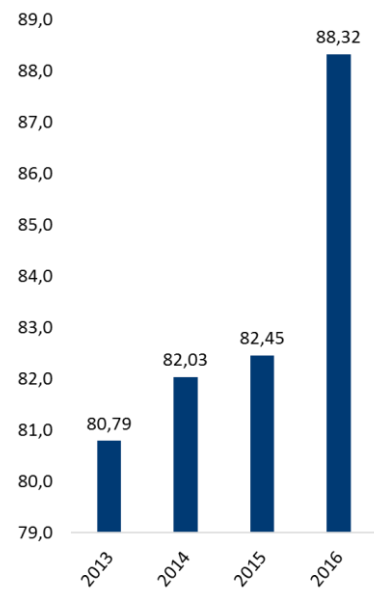


Source : UNWTO Reports

while in 2016 this number was 35,555 million of tourists (exhibit 30). Hotels retail value also increase between 2012 and 2017 due to a higher demand from tourists. In 2012, sales value for hotels in Germany was at 14,141 million euros, while it pushed up to 16,736 millions in 2017. This increase is mainly attributable to the fact that Germany has much to offer with excellent value for money. Moreover, there are a large number of historical and cultural attractions, which several attract more than one million visitors per year. Furthermore, the proportion of online sales continued to increase and achieved considerable growth rate. Main weaknesses of Germany lies within the security concerns regarding terror threats and the refugee crisis, which might have a negative effect on Germany as a destination. Moreover, the travel and tourism has very low importance on GDP than any other industry and receives less support from government than in other European countries. However, more awareness as a destination could potentially lead the tourism industry to grow stronger-than-expected.

Regarding Austria, the tourism sector contributed to 15.6% of GDP in 2016 representing 54.4 billion euros and will rise by 4.6% in 2017. It is projected to rise by 2.4% CAGR until 2027 to a total of 72 billion euros for a contribution of 17.6% of GDP. The sector also contributes to a significant amount of the total employment in Austria. The total contribution of travel & tourism to employment, including jobs indirectly supported by the industry was 16.9% in 2016 (734,000 jobs). It is projected to rise by 4.8% in 2017 to 769,500 jobs and rise by 1.4% CAGR in 2027. Austria welcomed more than 37 million tourists in 2016 and keeps increasing on a steady rate of 3.3% p.a. since 2006 (26.5 million tourists). Most of the visitors come from Germany, accounting for about 37.7% of total international tourists. It is followed by Netherlands (6.8%) and Switzerland (3.6%). The domestic market, account for itself about 26.9%.

**Exhibit 31 – BU Central Europe Revenue per Average Room**

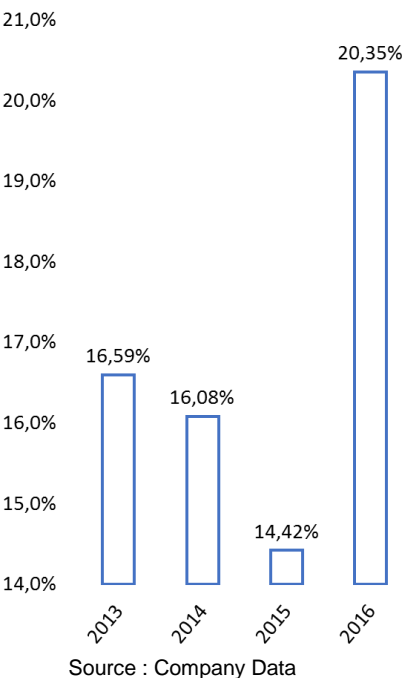


Source : Company Data

▪ **Performance Analysis**

NH Hotel Group Central Europe is the first major business unit in terms of revenues, since it accounts for 28% of the overall revenues. The business unit grew on a moderate rate compare to the other four business units. From 2013 to 2016, revenues grew by 2.74% CAGR, from 375.11 million euros in 2013 to 406.75 million in 2016. Between 2013 and 2014 revenues increased by 1.54%, while it increased by 6.25% from 2015 to 2016. The lowest year in revenue growth was 2015, which registered only a 0.51% increase. This slower pace in growth is completely due to a decrease in occupancy rate (-4.40%) over the year, impacted by the lower number of visitors to trade fairs due to refugees issues. Moreover, the lower activity is also attributable to the fact that NH Hotel Group had not begun its brand and product repositioning plan yet. Furthermore, the hotels in refurbishment have impacted the revenue for the second period of 2015. On the year of 2016, revenues grew by 6.25% explained by the repositioning investment undertaken in the previous year. The group

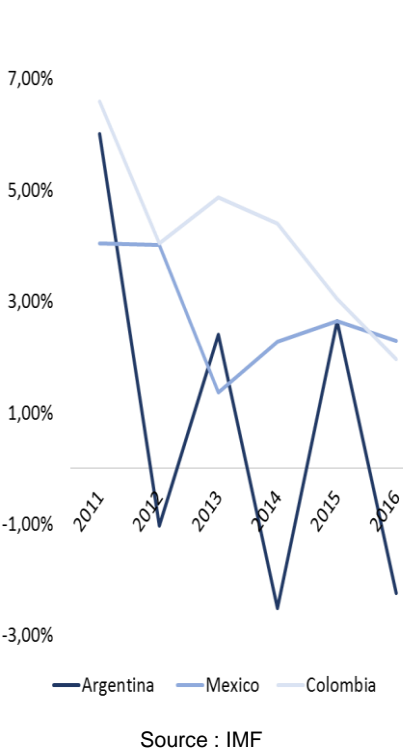
**Exhibit 32 – BU Central Europe EBITDA margin**



strengthened its positioning (20% of the rooms under the NH collection with a premium of +40% on on the ADR), which increase both Occupancy rate and ADR (+3.3% for Occupancy Rate, +3.6% for ADR) resulting in a growth of RevPar by 7.7% (exhibit 31). In addition, the activity also grew in 2016 due to favorable trade fairs calendar and more awareness of Germany and Austria as tourists destination. Concerning the efficiency plan and the reduction of operational costs, operating expenses have increased moderately by 1.28% CAGR, from 313.16 million euros in 2013 to 325.38 million euros in 2016, with significant effort to reduce procurement cost and lease rentals. Procurement cost decreased by -2.47% CAGR from 2013 to 2016 mainly due to the partnership with Cooperama. Regarding lease rentals, it also decrease on a steady rate of -2.86% CAGR since NH hotel central europe business unit has seen some leasing agreement as inefficient. However, external services have increased from 98.3 million euros in 2013 to 115.28 in 2016 (+5.45 CAGR) because of higher activity in the business unit. As a result of a stronger increase in revenues than operational cost, the EBITDA margin of central europe business unit has increased from 16.6% in 2013 to 20.3% in 2016. However, it experienced a slight decrease in the year 2015 (14.4%) as the business unit experienced less activity due to refurbishment and the refugee crisis (exhibit 32).

### Business Unit: Latin America

**Exhibit 33 – Argentina, Mexico and Colombia GDP Growth Rate**

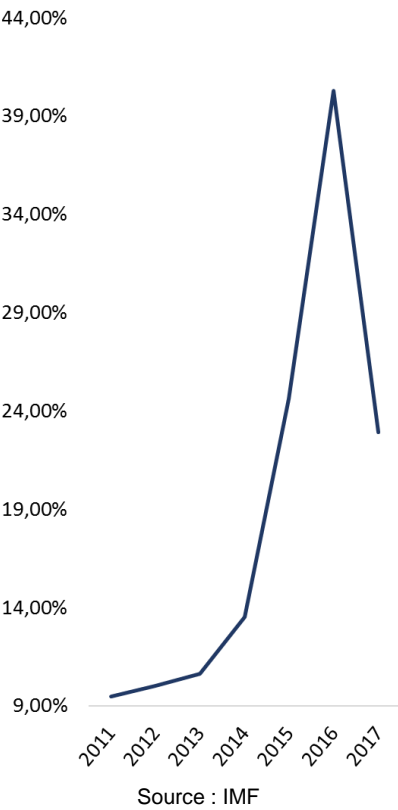


Business unit Latin America is comprised of a set of 14 countries in both Central and South-America. The three main markets are Argentina with 15 hotels, Mexico with 13 hotels and Colombia with 15 hotels as well. The total business unit holds 70 hotels for 10,724 rooms. The business unit is the smallest BU in terms of revenues and the third largest in terms of rooms. For the purpose of the report, the analysis will focus mainly on the three main countries.

- **Macroeconomic environment**

Argentina GDP growth oscillated between 6% in 2011 and -2.25% in 2016. The economic growth is projected to strengthen and become more broad-based (exhibit 33). Monetary policy is restrictive, leading inflation to fall and raising household's purchasing power and consumer spending. Labour market is extremely volatile in Argentina as unemployment rate decreased from 8% in 2013 to 6.5% in 2014 and increased from 6% in 2015 to 9.4% in 2016. Unemployment rate is currently in a low momentum decreasing from 9.2% beginning 2017 to 8.3% in October 2017. It is expected to stabilize and improve gradually as the recovery picks up. Concerning infaltion rate (exhibit 34), Argentina has experienced since 2014 an extremely volatile inflation. In late 2013 inflation was stabilized at a constat rate of 10%, however, from 2014 to 2016 the inflation rate increased to 40%. The government has undertaken

**Exhibit 34 – Argentina Inflation Rate**



several restrictive monetary policies to bring-down the inflation rate. By the end of the quarter, inflation rate will be at 22.9%. It is projected to decrease to 12% by 2020 with the implementation of reforms, monetary policies and economic stability. Eventually, growth is set to rise supported by rising domestic demand. Investment will be key drivers for 2018 and 2019 helped by stronger infrastructure investment.

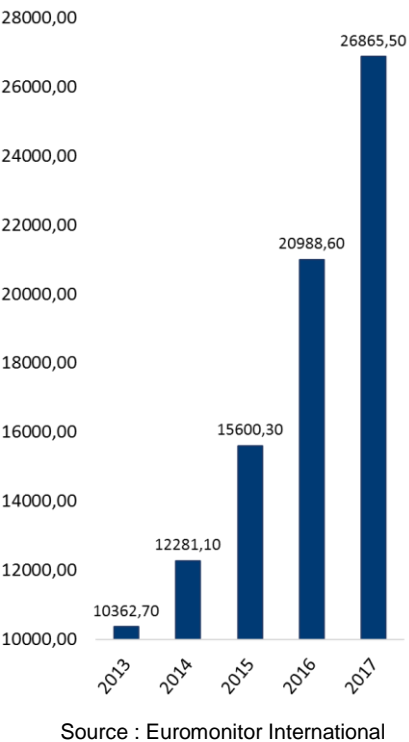
Mexican economic activity is also very volatile since GDP growth oscillates between negative and positive rate since 2012. As an example, GDP growth was 1% in 2012, decreasing to -1% in 2013. Since beginning 2017, GDP growth rate decreased from 1.2% to -0.3% in November 2017 (exhibit 33). However, it is expected to expand above 1% in the near future despite the uncertainty environment and tighter monetary policies. The economy will rebalance, with a greater contribution of exports and investment to growth while private consumption will decelerate as high inflation cuts household purchasing power. Unemployment rate is currently at its lowest level over 10 years, it decreased from 5.5% in 2013 to 3.5% in 2017 due to a buoyant service sector. Concerning inflation, it has soared to above the central bank's target as a consequence of the peso depreciation. Since late 2015, inflation increased from 2% to 6.8% in November 2017. Eventually, the Mexican economy is set to grow at a moderate pace as private consumption is expected to decelerate impacted by a growing inflation rate.

Economic growth of Colombia is expected to rise to around 3% in 2018 and 2019. GDP remained volatile since 2012 at 7.9% annual growth to 2.3% in 2013. However, since 2014 GDP growth experienced a decrease from 6.1% to the actual level of 2.00% in 2017 (exhibit 33). Growth has bottomed out, impacted by tax reforms, lower consumer confidence and the high unemployment rate impacting household consumption. Exports have decreased since 2013, from 70 billion USD to 44 in 2016. However, economic growth started to improve at a gradual pace during 2017, boosted by a decrease in unemployment rate and a higher consumer confidence. Moreover, investment started growing in Q2 2017 while exports and imports are recovering

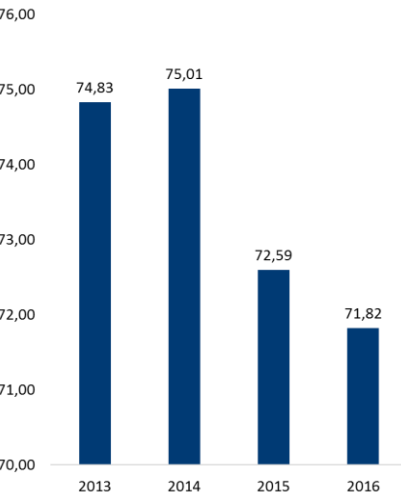
▪ **Sector overview**

Argentina tourism sector contributes to 9.6% of total GDP in 2016 (52.2 billion USD). It is forecasted to rise by 4.4% in 2017 and to rise by 2.6% p.a. to 9.7% of GDP in 2027 (70.7 billion USD). Regarding employment, the tourism sector supported 572,000 jobs (3.2% of total employment) in 2016. The number of international tourists arrivals have stabilized since 2012 between 1.2 million to 1.8 million in 2015. In 2016 the number of tourists arrivals was at 1.45 million. It is forecasted to increase at a moderate rate if the government focuses more on this sector, implements reforms and increases public investment. This sector, especially in Argentina, underlines a

**Exhibit 35 – Argentina Hotel Retail Value (AR\$M)**



**Exhibit 36 – BU Las Americas Revenue per Average Room**



Source : Company Data

massive growth potential since the country has a huge variety in the tourism sector, as seen in exhibit 35 with the hotel retail value considerably increasing. In fact, the WTTC Global Summit will be held in Buenos Aires, which shows the commitment from the Argentine government to expand the sector.

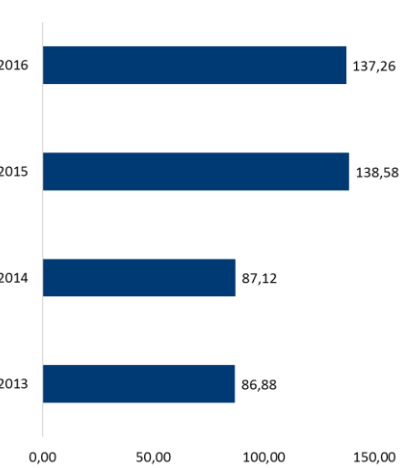
Mexican tourism sector contribute to 165.9 billions USD (16%) of GDP in 2016, and is forecasted to rise by 3.7% in 2017. In 2027, it is projected to be at 232.1 billion USD, representing 17.2% of GDP. Concerning employment, in 2016 the tourism sector directly supported 4.059 million jobs accounting for 7.9% of total jobs. The country ranks ninth in the world for international tourists arrivals as it welcomed 35 million tourist in 2016, increasing by 8.9% from 2015 with 32.1 million tourist arrivals. According to Moody's report on tourism activity in Mexico, it is currently outpacing economic growth. The main growth drivers are the reduction in fuel prices, a stronger dollar and an increasing competition among airlines. Moreover, a weaker peso will attract even more foreign travellers to Mexico, as well as new air trade agreement with the US.

▪ **Performance Analysis**

Business unit Latin America is the less performing BU of NH Hotel Group regarding operational efficiency. However, it registered the most significant revenue increase from 2013 to 2016 with a 16.5% CAGR. On average, revenues grew 19.4% annually with a peak in 2015 when revenues increased by 59%. Looking at exhibit 37, revenues increased from 86.8 in 2013 million to 137.8 million in 2016. This robust growth in turnover is mainly due to a higher activity in Latin America influenced by a larger amount of rooms and opening in new countries. From 2013 to 2016, BU Latin America has opened 3,339 rooms and expanded to 4 new countries. Revenue drivers experienced a moderate loss in the Latin America over the period. Occupancy rate increased from 67.7% in 2013 to 69.4% in 2014, however, it has experienced an important decline since 2014 until 2016 from 69.4% to 62.5%. The occupancy rate was affected by the refurbishment of the largest hotel in the city of Mexico and other important key hotels in Argentina and Chile. Regarding ADR, it has oscillated between 110.5 and 114.9 between 2013 and 2016. As a result of the two metrics, occupancy rate and ADR, RevPar has experienced a decline of -7.43% CAGR over the period (74.83 in 2013 to 71.82 in 2016, exhibit 37).

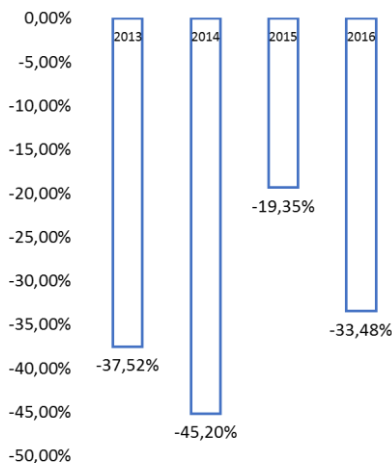
Concerning the efficiency plan, the BU suffers to implement actions from management due to external factors, such as the economic activity of the countries comprised in the business unit. The overall operational expenses increased by 16.7% CAGR from 2013 to 2016, from 87.08 million euros to 138.7 million euros. The actions to take under the efficiency plan are hard to implement in this business unit as the member

**Exhibit 37 – BU Las Americas Revenue**



Source : Company Data

### Exhibit 38 – BU Las Americas EBITDA Margin



Source : Company Data

countries have unstable economic activities. In fact, even though the cost savings plans offset the exchange rate risk, the revenues and expenses are impacted by local currencies and a high inflation (Argentina). EBITDA margin was -37.5% in 2013, with a strong decline in 2014 at -45.2%. In 2016, EBITDA margin was at -33.4%, compare to -19.3% in 2015 (exhibit 38). The loss in EBITDA in 2016 is explained by the inability to transfer high inflation and collective agreements to prices in Argentina. All expenses considerably increased over the period, such as external services (+18% CAGR), staff cost (+14% CAGR) and lease rentals (+12.6% CAGR), directly impacted by higher activity, but most importantly the high inflation and the loss in currency translation. For the near future, it is expected a positive revenue trend in local currency for the BU, which may be affected by changes in exchanges rates that are projected to be compensated by cost savings plans and economic recovery with a stabilized inflation in the member countries.

## Valuation

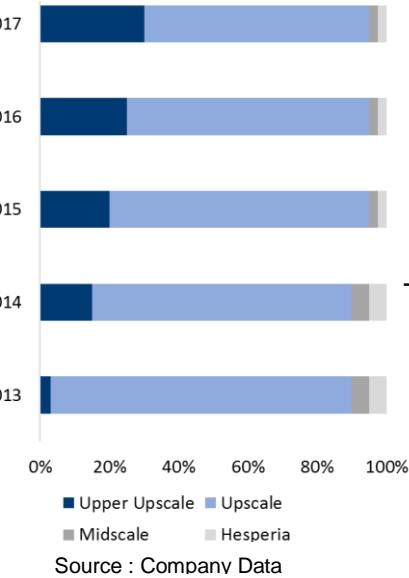
To determine a target price for NH Hotel Group's share for year-end 2018 we used the discounted cash flow method by breaking down the revenues and expenses per business units as they each hold a different growth but also to account for the different risk present in the country comprised in each BU. To assess the robustness of our target price and how it is affected by changes in the main drivers established we set a scenario analysis to the cost of capital and terminal value growth rate. Revenues are the key driver of any business and are of extreme importance for a DCF valuation. Many of the other items to forecast will depend on revenues. Hotel revenues incorporates: Occupancy Rates and Average Daily Rate, which combined together lead to RevPar (Revenue per average room).

### Mains Drivers

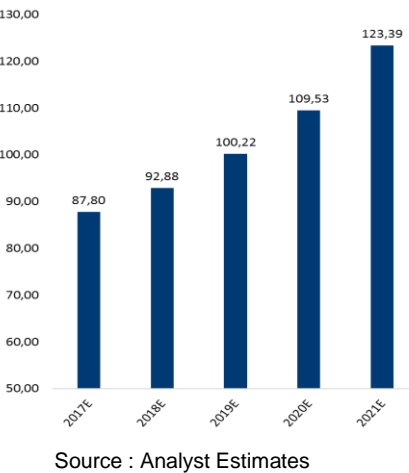
In order to forecast NH Hotel Group's cash flows we selected a set of inputs that are critical to determine the main components of the DCF analysis.

- **Growth of Occupancy Rate:** For 2013 until 2016, we used the number from the 12 months Sales and Results of each year. For the forecast period, we estimated occupancy rates based on the BMI's report occupancy growth projection per countries and a fair assesment of their macroeconomic activity and toursim sector condition.
- **Growth of ADR:** Regarding the Average Daily Rate, we took the revenue per business unit and divided per the number of rooms included in the business unit. Then, we multiply per occupancy rate. For the forecast period, we took the previous year revenue and multiply by the growth factor estimated with macroeconomic and the toursim sector conditions in the future. In addition, this

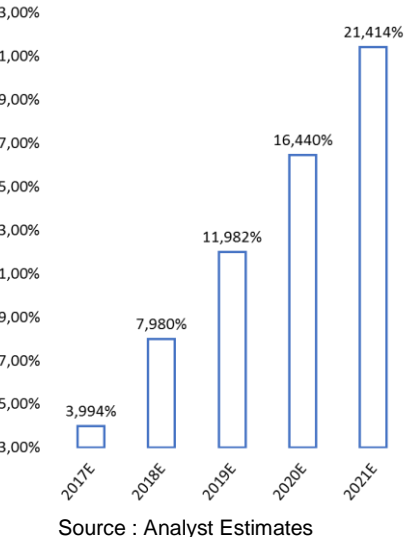
**Exhibit 39 – NH Hotel Segmentation**



**Exhibit 40 – BU Spain RevPar Forecast**



**Exhibit 41 – BU Spain EBITDA Margin Forecast**



value depends mainly on the repositioning plan – we just assumed the ADR growth since the beginning of the plan back in 2013 as a proxy and forecast until 2021. Indeed, the repositioning plan will help the growth in ADR since NH Hotel Group is increasing its upper upscale and upscale hotels and decreasing its midscale hotels as seen in exhibit 39. Concerning the number of rooms, we forecasted using the expansion plan and the project signed until 2021. Moreover, we pegged inflation rate on ADR, which differs per business unit.

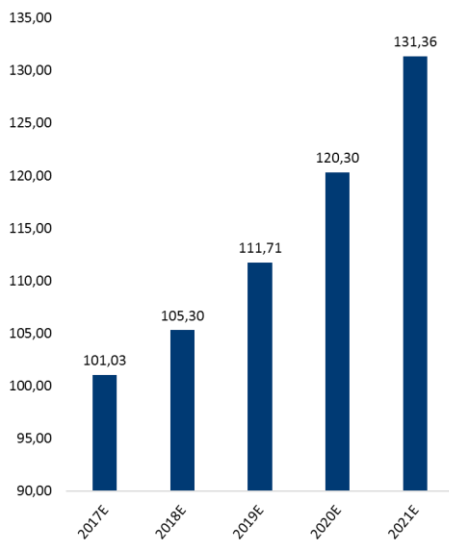
**Growth of RevPar:** Revenue Per Average Room is the product of occupancy rate and ADR.

**Base Scenario per Business Unit**

In the following section we describe our base scenario and the inputs selected for each business unit by mentioning the macroeconomic forecasts and our strategic vision for NH Hotel Group, and presenting as well the main DCF components results.

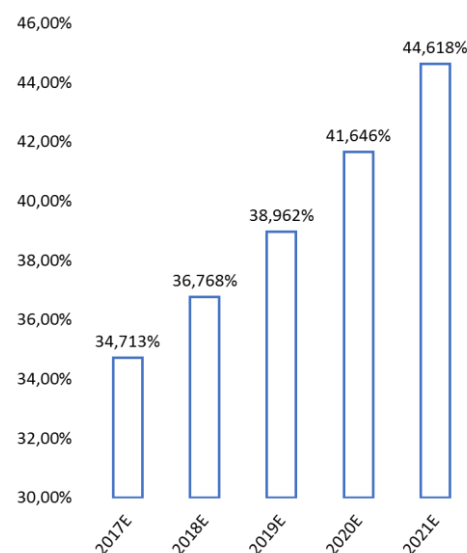
For **BU Spain**, the most mature market, the tourism sector in Spain and Portugal is currently booming and are key destinations in Europe. In fact, both BMI and PwC’s analysis forecast an increase in occupancy rate and ADR. The countries comprised in the business unit hold the advantage of being attractive destinations, with few risk such as other countries competitor (Greece and Italy) . Occupancy rate for NH Hotel Spain BU is projected to increase by 3.20% from 2016 (69.00%) to 2021 (71.00%). Main cities such as Barcelona, Madrid and Lisbon are key cities destination in the iberian area expecting to welcome more international tourists on the forecast period. Moreover, as the refurbishment plan is finish in the Spain business unit it offers a more diversified portfolio with a full availability of rooms. In addition, according to the expansion plan, NH Hotel BU spain will open 474 new rooms until 2021 . Therefore, ADR (excluding IMF inflation projection) is expected to grow by 2% every year, as it significantly rose for the past 4 years. It is expected to be at 173.8 in 2021, compared to 122.36 in 2016 (inflation included). As a result, RevPar is projected to grow at a pace of 7.27% CAGR from 2016 until 2021, from 84.18 in 2016 to 123.39 in 2021 (exhibit 40). As a consequence, revenue for the year 2021 are projected to grow at 8.51% CAGR from 361.38 millions euros in 2016 to 543.65 million euros in 2021. Regarding operation expenses, it is expected to grow at 3.27% CAGR between 2016 and 2021. As part of the efficiency plan, lease rentals will decrease by 3% CAGR, and procurement cost by 1.75%. However, with the projected higher activity and the increasing number of rooms, expenses such as staff cost is expected to increase on a moderate rate (including inflation) close to occupancy rate growth at 2.03%. External services are expected to grow at a faster pace

**Exhibit 42 – BU Italy RevPar Forecast**



Source : Analyst Estimates

**Exhibit 43 – BU Italy EBITDA Margin Forecast**



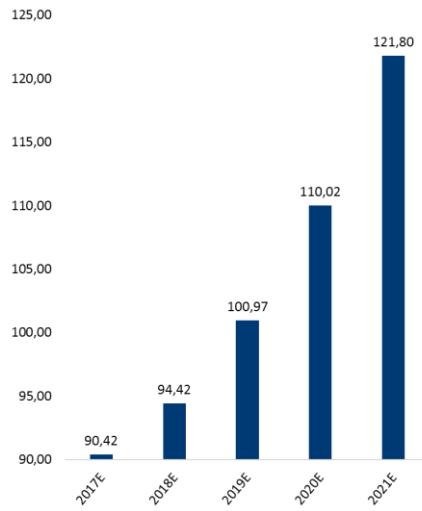
Source : Analyst Estimates

(7.17% CAGR). Overall expenses will increase from 358.28 million euros in 2016 to 429.81 million euros 2021. Eventually, the Spain BU will improve its EBITDA margin as it already improved from -34.1% in 2013 to 1.473% in 2016 . In fact, as a result of the expansion, refurbishment and efficiency plan commitment, NH Hotel Group Spain BU will increase its EBITDA margin from 1.473% in 2016 to a projected 21.41% in 2021 (exhibit 41).

For **BU Italy**, holding 13% of all NH Hotel Group’s rooms, growth expectations are moderate. Even though the italian economic recovery is expected to continue in 2017 and 2018 with GDP growth expected to rise at 1.1% and 1.0% respectively, the italian tourism suffers from competitor countries with more affordable prices and similar leisure offers (Spain, Portugal, Greece). In addition, as previously analysed, the weaker-than-expected growth is mainly impacted by the business and consumer confidence in Italy. However, the refurbishment plan is finished in BU Italy and NH Hotel Group will benefit from the full availability of its rooms plus the opening of 443 new rooms. As a result, occupancy rate will grow at a moderate rate of 1.2% in 2017 and at a stable rate of 0.75% until 2021. From 65.4% in 2016 to 67.00% in 2021. Regarding ADR, it is expected to grow at conservative rate, being the lowest among all BU. Excluding inflation projection, ADR will grow at 1.1% every year based on the macroeconomic and tourism sector analysis. With inflation projection from IMF incorporated in the calculation, ADR will grow at a 5.28% CAGR, from 151.6 to 196.1 in 2021. As a result, RevPar will increase at 5.79% CAGR from 99.14 in 2016 to 131.36 in 2021 (exhibit 42). Revenues are expected to be at 374.23 million euros in 2021, compared to 266.96 million in 2016, growing at 7.03% real CAGR. Concerning operational expenses, as the activity will increase since the business unit will have more rooms and a higher demand from tourists, it is expected to grow at 3.51% CAGR from 175.08 million euros in 2016 to 208.05 million in 2021. Lease rentals are the only expenses to decrease over the forecasted period (-0.38%). Other expenses, such as procurement cost, staff cost and external service are increasing by 1.93%, 2.50% and 6.57% respectively (including inflation). As a consequence, EBITDA margin is projected to increase from the 34.59% in 2016 to 44.6% in 2021 (exhibit 43).

For **BU Benelux**, the growth expectation are robust over the forecasted period. As seen in the sector overview, the business unit suffered from terrorist attack in Blegium, France and UK, which resulted in a decrease in occupancy rate in 2015. The tourism sector is slightly recovering in 2016 and 2017 with greater expectation towards 2021. Occupancy rate is expected to increase to 68% in

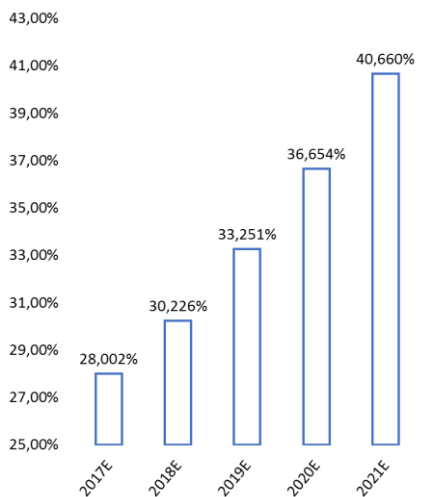
**Exhibit 44 – BU Benelux RevPar Forecast**



Source : Analyst Estimates

2021, from 65.7% in 2016. Average Daily Rate is expected to grow at a moderate rate of 1.5% annually excluding inflation. When inflation included, ADR will grow at 6.25% CAGR from 132.3 in 2016 to 179.1 in 2021. Therefore, Revenue per Average Room is projected to grow at 6.98% CAGR until 2021 (exhibit 44). Revenues are projected to be 479.9 million euros in 2021, increasing by 11.64% real CAGR from 276.75 million euros in 2016. The increase of revenue will be attributable to a growing occupancy rate and a higher activity due to new rooms openings, representing 2231 rooms. Regarding efficiency plan and operational expenses, the business unit is the second BU with the highest growth in operational expenses. Operating expenses are projected to increase at 7.27% CAGR until 2021, from 201.27 million in 2016 to 285.94 million euros. The most significant increase are staff cost and external services, which are impacted by the projected higher activity due to a tourism sector in recovery. EBITDA margin is expected to be at 40.07% in 2021, from 27.6% in 2016 (exhibit 45).

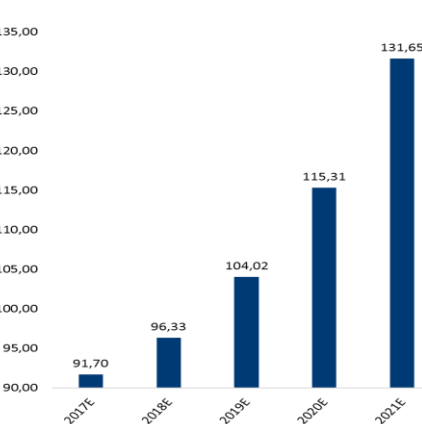
**Exhibit 45 – BU Benelux EBITDA Margin Forecast**



Source : Analyst Estimates

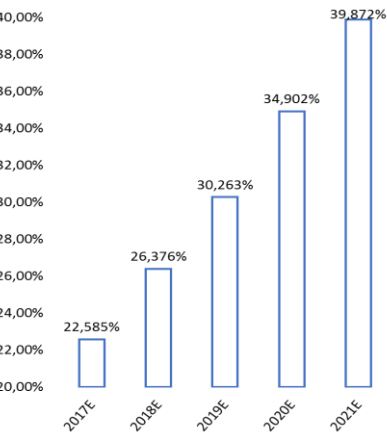
For **BU Central Europe**, the second most mature market of NH Hotel Group, expectations are conservative. Occupancy rate for the BU was at 70.5% in 2016 with expectation to be at 72% in 2021. In fact, the tourism sector in the BU is still not mature enough (especially in Germany), and all countries will experience a robust economic growth over the period. ADR is projected to grow at 1.5% nominal rate per year, since the business unit holds strong expectation regarding the tourism sector. While pegged to inflation, ADR will grow by 7.86% CAGR from 125.3 in 2016 to 182.9 in 2021. As a consequence, RevPar is set to grow at 8.31% CAGR from 88.32 in 2016 to 131.65 in 2021 (exhibit 46). Revenues in 2021 are expected to be at 708.27 million euros in 2021, growing by 11.73% CAGR from 2016. The business unit will perform greatly, especially due to the expansion plan with the openings of 2221 rooms, and the higher demand from international tourists for Germany and Austria as tourism destination. Total operating expenses are expected to increase by 4.09% CAGR from 325.35 million euros in 2016 to 397.6 million 2021. Despite the fact that all expenses will experience a robust increase due to a higher activity and a greater amount of rooms, lease rentals are projected to decrease as part of the efficiency plan (-2.82% CAGR). Among the increasing expenses, procurement costs will grow at the slowest pace (+3.64% CAGR) thanks to Cooperama partnership. External services and staff costs will increase by 11.9% and 5.36% real CAGR until 2021. As a result, EBITDA margin will improve towards the forecasted period from 20.35% to 39.87% in 2021 (exhibit 47).

**Exhibit 46 – BU Central Europe RevPar Forecast**



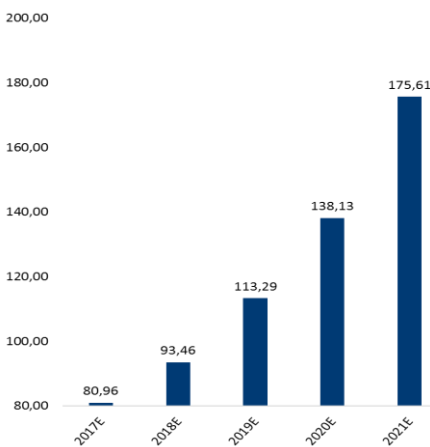
Source : Analyst Estimates

**Exhibit 47 – BU Central Europe EBITDA Margin Forecast**



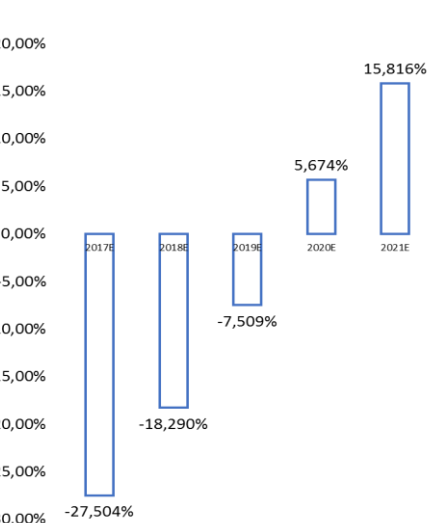
Source : Analyst Estimates

**Exhibit 48 – BU Las Americas RevPar Forecast**



Source : Analyst Estimates

**Exhibit 49 – BU Central Europe EBITDA Margin Forecast**



Source : Analyst Estimates

Finally, for **BU Latin America**, expectation have a positive outlook since international tourism demand for emerging countries is growing at a faster pace than for developed economies, in addition to a strong economic growth for the 3 main countries comprised in the business unit and an increasing number of rooms. Occupancy rate decreased significantly from 2013 to 2016 and is expected to grow over the forecasted period. In 2016, occupancy rate was 62.5%, with expectation to be at 67.5% in 2021 as tourism sector is expected to recover in this region of the world. ADR is expected to grow at a significant level of 17.75% real CAGR. In fact, inflation is still very high in countries such as Argentina and Mexico, which greatly impact ADR and expenses. ADR was at 114.9 in 2016 and is expected to be at 209.3 in 2021. As a consequence, RevPar will also register a significant increase of 19.58% real CAGR until 2021, from 71.82 in 2016 to 175.61 (exhibit 48). Revenues are projected to increase at a real CAGR of 29.92% from 137.26 million to 495.85 million euros in 2021. From the sector and economic review, business unit Latin America holds the most significant growth since the expansion plan is a key driver for revenues in this specific BU. Concerning operating expenses, it will also register the most significant increase. In real terms, total operating expenses are projected to grow at 17.85% CAGR mainly due to higher activity. As a consequence, EBITDA margin will considerably improve, from a negative EBITDA margin of -33% in 2016 to 15.8% in 2021 (exhibit 49).

**CAPEX**

At this point we incorporated information regarding NH Hotel Group’s expansion plan, as well as the typical size of rooms, at each of the geographies and the price per square meter. The management report suggest a number of openings in the future and confirms that information in the “sales and results” reports with the number of signed contracts. We have available information until 2021 and forecast capex in two separated elements, capital expenditure necessary for expansion purposes and, capital expenditure for maintenance and refurbishment. Other operating indicators, such as **Depreciation** and **maintenance costs** were estimated considering their historical value as a % of fixed assets, 5% and 7.5% respectively.

**Net Working Capital**

We forecasted **NWC** based on past days of sales, assuming that NH Hotel Group will maintain its efficiency plan and be able to manage its inventories, payables and receivables.

**WACC Assumptions**

**Exhibit 50 – WACC inputs**

|                         |              |
|-------------------------|--------------|
| Rf                      | 0,36%        |
| MRP                     | 5,75%        |
| Beta relevered          | 1,11         |
| Tax Rate                | 25,00%       |
| D/E                     | 0,43         |
| <b>Cost of Equity</b>   | <b>6,73%</b> |
| Interest coverage ratio | 0,83         |
| Rating                  | B2/B         |
| Spread                  | 6,50%        |
| <b>Cost of Debt</b>     | <b>6,86%</b> |
| <b>WACC</b>             | <b>6,25%</b> |

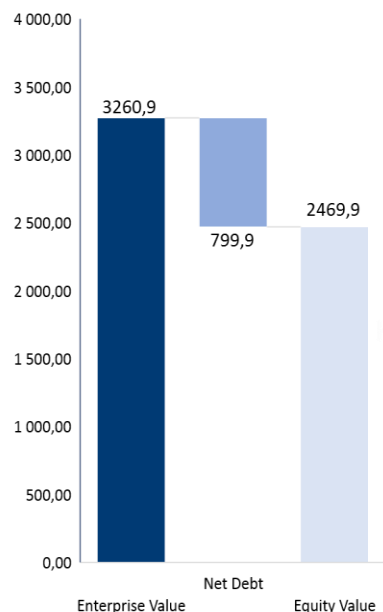
Source : Analyst Estimates,  
Bloomberg

The Weighted Average Cost of Capital was used to discount each the consolidated cash flows, reflecting the opportunity cost for NH Hotel Group bond and shareholders weighted by the proportion of the company each owns. Exhibit (x) specifies our inputs. The WACC was estimated to account for the risk profile of the overall consolidated business. For the **risk-free**, a measure of the alternative asset with the highest return available for investors in the absence of default and reinvestment risk, we used the German Bund 10-years yield. The current yield is partly artificial due to the implementation of unconventional monetary policies by the ECB specifically targeted at leading investors to buy riskier assets. To determine the **Equity Risk Premium**, we used the “KMPG Market Risk Premium Research Report” from July 2017 that suggest an ERP at 5.75%. Although stable overall, the implied equity returns of European indices have all increased over the last 2017 quarters. The selected 5.75% MRP reflects the average premium over the risk-free of US market provided to investors for them to incur in extra-risk. Regarding the **capital structure**, it is adjusted each period through dividends payment, capital reimbursement, debt issuance, etc. Debt-to-equity, computed as market value of equity over market value of debt. In the base scenario, D/E ratio was calculated as market value of equity as of November 2017, while using the book value of debt as a proxy for the market value. Throughout the forecasting period we expect the debt-to-equity ratio to be constant at 0.42. The **Cost of Equity**, was estimated through the Capital Asset Pricing Model, using the median of peers unlevered Beta. Only 7 travel & tourism companies were considered among 51 pre-selected listed companies. As a result, computation gives an unlevered Beta of 1.11, which was relevered considering the firm’s target capital structure and a debt Beta of 1.13. **Cost of Debt** was calculated using the interest coverage ration that gives the spread to add with the risk-free. As a result, in 2016, NH Hotel Group interest expenses were 45.89 million and produced an EBIT of 37.87 million. Interest coverage ratio was at 0.825 attributing a spread of 6.50% for a total cost of debt of 6.86%. For all inputs details, refer to exhibit 50.

**Barcelo bid offer for potential acquisition**

NH Hotel Group has taken another twist after rival Spanish Hotel chain Barcelo emerged as a potential buyer. The tie-up would create a combined business of 478 properties and close to 89’000 rooms. According to the travel research firm STR, Barcelo made an offer of \$3 billion for NH Hotel Group. According to a letter sent to NH, Barcelo has proposed a reverse takeover by NH. Barcelo suggest that NH pay for Barcelo with an issue of new shares at 7.08 euros. NH Hotel Group future is uncertain since representative of its biggest shareholder, HNA Group (29.5%), were ejected from the board last year due to conflict of interest

**Exhibit 51 – Valuation Results**



Source : Analyst Estimates

because of takeover on rival hotel group Carlston. Moreover, in 2016, HNA has bought a 25% stake in Hitlton from Blackstone for \$6.5 billion. Eventually, Barcelo said it would expect to control over 60% of the combined group. As a result of this possible transaction, Barcelo would own about 600 hotels mainly focused on Europe and South America, with an expected total revenues of 3.7 billion euros. Overall, this acquisition would allow Barcelo and NH Hotel Group to increase its scale and market share in Europe and America at a relative attractive valuation considering the potential synergies.

**Valuation Results**

Considering the base scenario with a perpetual growth rate of 1.9%, **the target price** we estimate is 7.05 euros per share, implying a total expected return of 19.1%. Exhibit x summarizes our results and specifies the cost of capital.

**WACC and g Sensitivity Analysis**

We present our base case target price sensitivity analysis to changes in the growth rates and in the cost of capital analysed.

**Exhibit 52 – WACC and g sensitivity analysis**

|                |       | g%    |       |       |       |       |       |       |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|
| NH Hotel Group |       | 0,40% | 0,90% | 1,40% | 1,90% | 2,40% | 2,90% | 3,40% |
| WACC %         | 4,75% | 7,5   | 5,9   | 5,3   | 5,3   | 5,9   | 7,5   | 12,2  |
|                | 5,25% | 10,6  | 7,8   | 6,9   | 6,9   | 7,8   | 10,6  | 20,3  |
|                | 5,75% | 12,9  | 9,2   | 8,0   | 8,0   | 9,2   | 12,9  | 28,8  |
|                | 6,25% | 12,9  | 9,2   | 8,0   | 8,0   | 9,2   | 12,9  | 28,8  |
|                | 6,75% | 10,6  | 7,8   | 6,9   | 6,9   | 7,8   | 10,6  | 20,3  |
|                | 7,25% | 7,5   | 5,9   | 5,3   | 5,3   | 5,9   | 7,5   | 12,2  |
|                | 7,75% | 4,9   | 4,0   | 3,6   | 3,6   | 4,0   | 4,9   | 7,1   |

As observed in exhibit 52, inputs have a large impact on the share price: With a WACC ranging from 4.75% to 7.75% and the growth rate from 0,40% to 3,40%, our base case target price varies from 3.6 EUR/Share to 28,8 EUR/Share.

**Multiples**

Market multiples give a fast picture of NH Hotel Group valuation when compared with its Hotel market peers, which have been picked for thei similarities with NH Hotel Group. Analyzing and comparing our estimates with the forecasted indicators of the main engineering and construction companies, NH Hotel Group currently trades at a discount using P/CF, at par using EV/EBITDA and at premium using PE ratio (exhibit 53)

|                       | P/E    | EV/EBITDA | P/CF     |
|-----------------------|--------|-----------|----------|
| NH Hoteles            | 74,81  | 10,94     | 15,85    |
| Accor                 | 62,26  | N/A       | 14,36    |
| Inter Continental     | 23,97  | 15,74     | 16,71    |
| Whitbread             | 16,41  | 10,27     | 11,04    |
| Host Hotels & Resorts | 26,95  | 11,90     | 10,47    |
| Marriot International | 30,05  | 22,37     | 18,97    |
| Starwood Hotels       | N/A    | 13,53     | N/A      |
| Equity Value          | 833,92 | 2459,83   | 15967,93 |

Exhibit 53 – Multiples Valuation

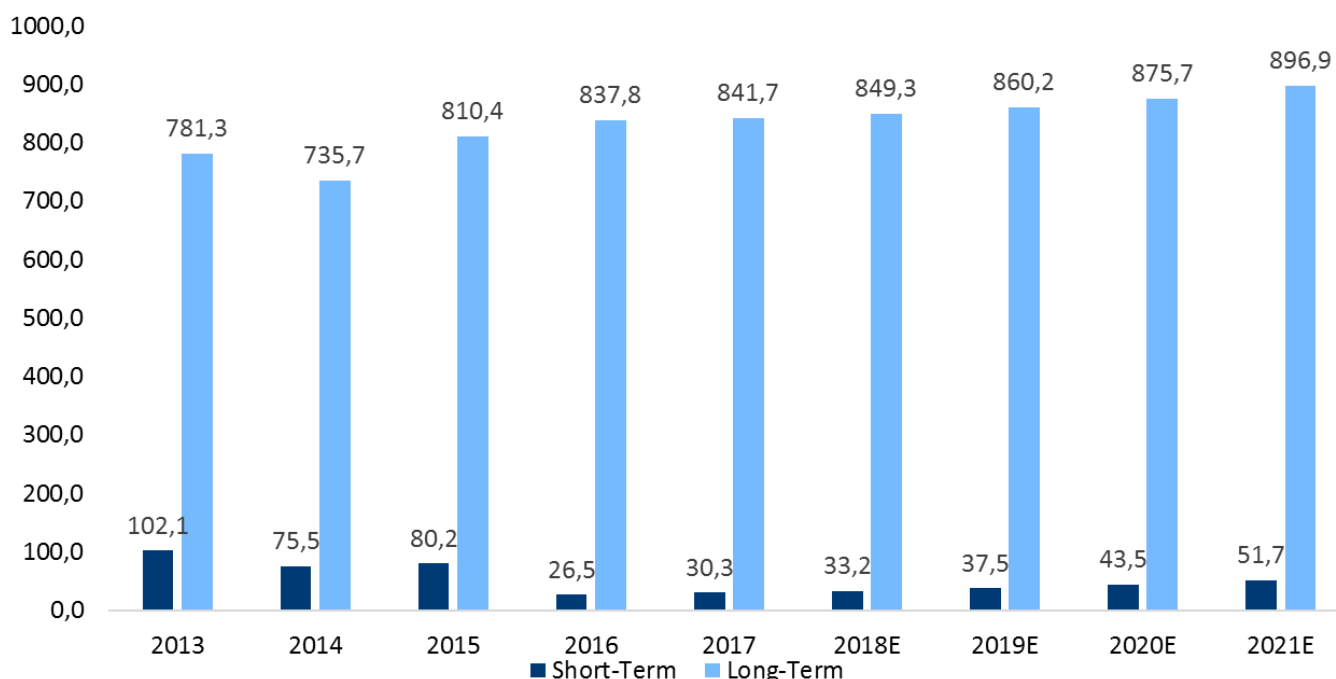
Source : Analyst Estimates

## Financials

### Debt Structure

NH Hotel Group’s debt has been quite stable over the years since 2012, from 883,4 million euros to 864,3 million euros in 2016. NH Hotel has clear incentives to keep a stable debt on its balance sheet as of the deleveraging program initiated in 2017. Towards the forecasted period and for the needs of the repositioning plan, assumptions are made that NH Hotel will increase its debt amount to 948,59 million euros both including short-term and long-terms debt (exhibit 54).

Exhibit 54 – NH Hotel Group Debt Structure



Source : Analyst Estimates

## Appendix

### Financial Statements

#### Balance Sheet - Consolidated

|   | 2013           | 2014           | 2015           | 2016           | 2017F          | 2018F          | 2019F          | 2020F          | 2021F          |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Operating assets</b>                 |                |                |                |                |                |                |                |                |                |
| Tangible assets                         | 1714,98        | 1606,36        | 1724,17        | 1701,43        | 1741,71        | 1832,68        | 1923,65        | 2041,36        | 2147,93        |
| Intangible assets                       | 169,84         | 172,77         | 238,08         | 244,19         | 250,54         | 257,14         | 264,01         | 271,15         | 278,59         |
| Working Cash                            | 61,61          | 62,35          | 68,83          | 72,40          | 76,24          | 83,65          | 94,27          | 109,45         | 130,09         |
| Inventories                             | 79,64          | 8,23           | 9,51           | 9,87           | 10,39          | 11,41          | 12,87          | 14,95          | 17,79          |
| Trade receivables                       | 119,20         | 136,01         | 169,27         | 146,20         | 153,94         | 168,90         | 190,35         | 221,00         | 262,68         |
| Deffered tax assets                     | 198,78         | 157,86         | 165,80         | 152,39         | 167,72         | 184,02         | 207,40         | 240,79         | 286,21         |
| Other current asset                     | 13,04          | 17,44          | 12,30          | 12,68          | 13,35          | 14,65          | 16,51          | 19,17          | 22,78          |
| Non-current assets held of sale         | 0,00           | 95,19          | 45,03          | 46,69          | 35,00          | 65,00          | 40,00          | 65,00          | 50,00          |
| Real estate investment                  | 0,96           | 0,00           | 0,00           | 0,00           | 0,00           | 0,00           | 0,00           | 0,00           | 0,00           |
| <b>Total Operating asset</b>            | <b>2358,04</b> | <b>2256,20</b> | <b>2432,98</b> | <b>2385,83</b> | <b>2448,89</b> | <b>2617,44</b> | <b>2749,06</b> | <b>2982,88</b> | <b>3196,07</b> |
| <b>Operating Liabilities</b>            |                |                |                |                |                |                |                |                |                |
| Deffered tax liabilities                | 201,23         | 179,73         | 196,71         | 174,99         | 184,28         | 202,18         | 227,87         | 264,56         | 314,45         |
| Trade payable                           | 229,59         | 231,43         | 251,04         | 229,77         | 229,49         | 233,64         | 244,62         | 262,48         | 289,82         |
| Tax payable                             | 37,50          | 40,09          | 50,84          | 44,94          | 30,72          | 33,67          | 38,08          | 43,98          | 51,87          |
| Other current liabilities               | 39,00          | 45,56          | 42,44          | 56,28          | 59,27          | 65,03          | 73,29          | 85,09          | 101,14         |
| Provisions                              | 26,27          | 14,84          | 5,33           | 11,46          | 7,84           | 8,59           | 9,71           | 11,22          | 13,23          |
| <b>Total operating liabilities</b>      | <b>533,58</b>  | <b>511,65</b>  | <b>546,36</b>  | <b>517,44</b>  | <b>511,59</b>  | <b>543,10</b>  | <b>593,57</b>  | <b>667,32</b>  | <b>770,51</b>  |
| <b>Net operating assets</b>             | <b>1824,46</b> | <b>1744,55</b> | <b>1886,62</b> | <b>1868,39</b> | <b>1937,30</b> | <b>2074,34</b> | <b>2155,49</b> | <b>2315,57</b> | <b>2425,56</b> |
| <b>Financial assets</b>                 |                |                |                |                |                |                |                |                |                |
| Cash equivalent                         | 72,26          | 137,76         | 8,87           | 64,34          | 67,75          | 74,34          | 83,78          | 97,27          | 115,62         |
| Investment                              | 111,60         | 168,35         | 162,97         | 92,97          | 97,91          | 107,42         | 121,07         | 140,56         | 167,07         |
| Investment through equity method        | 84,18          | 17,82          | 16,68          | 10,65          | 11,21          | 12,30          | 13,86          | 16,10          | 19,13          |
| Non-trade receivables                   | 60,86          | 69,79          | 73,12          | 54,51          | 57,40          | 62,98          | 70,98          | 82,41          | 97,95          |
| Other non-current assets                | 0,58           | 11,09          | 16,28          | 18,94          | 19,94          | 21,88          | 24,66          | 28,63          | 34,03          |
| <b>Total financial asset</b>            | <b>329,47</b>  | <b>404,80</b>  | <b>277,91</b>  | <b>241,41</b>  | <b>254,22</b>  | <b>278,93</b>  | <b>314,36</b>  | <b>364,97</b>  | <b>433,81</b>  |
| <b>Finacial liabilities</b>             |                |                |                |                |                |                |                |                |                |
| ST Borrowings                           | 102,13         | 75,48          | 80,15          | 26,54          | 30,30          | 33,24          | 37,46          | 43,49          | 51,70          |
| LT Borrowings                           | 781,29         | 735,71         | 810,41         | 837,79         | 841,73         | 849,32         | 860,20         | 875,75         | 896,89         |
| Provision for risks                     | 66,74          | 56,93          | 48,70          | 52,90          | 55,71          | 61,12          | 68,89          | 79,98          | 95,06          |
| Other non-current liabilities           | 50,31          | 88,48          | 99,18          | 34,04          | 35,84          | 39,33          | 44,32          | 51,46          | 61,16          |
| Liabilities classified as held for sale | 0,00           | 56,08          | 0,00           | 2,66           | 50,00          | 2,50           | 65,00          | 6,50           | 50,00          |
| <b>Total Financial liabilities</b>      | <b>1000,46</b> | <b>1012,68</b> | <b>1038,45</b> | <b>953,93</b>  | <b>1013,58</b> | <b>985,50</b>  | <b>1075,87</b> | <b>1057,18</b> | <b>1154,82</b> |
| <b>Net financial assets</b>             | <b>-670,99</b> | <b>-607,88</b> | <b>-760,54</b> | <b>-712,52</b> | <b>-759,35</b> | <b>-706,58</b> | <b>-761,51</b> | <b>-692,21</b> | <b>-721,01</b> |
| Non controlling interest                | 153,00         | 23,18          | 37,96          | 43,97          | 44,81          | 52,03          | 53,02          | 61,75          | 64,84          |
| <b>Common shareholders equity</b>       | <b>1000,47</b> | <b>1113,49</b> | <b>1088,12</b> | <b>1111,91</b> | <b>1133,14</b> | <b>1315,73</b> | <b>1340,96</b> | <b>1561,61</b> | <b>1639,71</b> |

## Profit &amp; Loss - Consolidated

| <i>Euro millions</i>                                | 2013          | 2014          | 2015          | 2016A         | 2017F         | 2018F         | 2019F         | 2020F         | 2021F         |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total revenues                                      | 1233,67       | 1250,25       | 1377,84       | 1455,59       | 1532,93       | 1681,88       | 1895,51       | 2200,57       | 2615,35       |
| EBITDA  | 77,73         | 103,84        | 144,03        | 181,83        | 238,60        | 317,73        | 429,38        | 600,91        | 843,25        |
| Depreciation and Amortization                       | -101,32       | -98,52        | -106,16       | -114,17       | -116,94       | -122,66       | -128,41       | -135,74       | -142,43       |
| <b>Operating profit</b>                             | <b>-23,59</b> | <b>5,33</b>   | <b>37,87</b>  | <b>67,66</b>  | <b>121,67</b> | <b>195,07</b> | <b>300,97</b> | <b>465,18</b> | <b>700,83</b> |
| Non-operating profit                                | 45,93         | 31,13         | 9,57          | 42,49         | 9,17          | 13,60         | 13,80         | 16,05         | 3,90          |
| <b>Operating and non-operating profit</b>           | <b>22,34</b>  | <b>36,45</b>  | <b>47,44</b>  | <b>110,15</b> | <b>130,84</b> | <b>208,67</b> | <b>314,77</b> | <b>481,23</b> | <b>704,73</b> |
| Taxes   | -25,46        | -31,66        | -25,97        | -19,41        | -32,71        | -52,17        | -78,69        | -120,31       | -176,18       |
| <b>Operating profit and non-operating after tax</b> | <b>-3,12</b>  | <b>4,80</b>   | <b>21,48</b>  | <b>90,74</b>  | <b>98,13</b>  | <b>156,50</b> | <b>236,08</b> | <b>360,92</b> | <b>528,55</b> |
| Interest expenses                                   | -54,46        | -53,49        | -46,01        | -45,89        | -46,30        | -46,86        | -47,66        | -48,81        | -50,36        |
| Other financial expenses                            | -21,884       | -15,341       | -27,704       | -26,412       | -26,6471881   | -26,9690324   | -27,4307096   | -28,0901092   | -28,9869062   |
| Financial income                                    | 4,10          | 7,37          | 5,15          | 3,31          | 3,34          | 3,38          | 3,44          | 3,52          | 3,63          |
| Net financial result before taxes                   | -72,25        | -61,46        | -68,56        | -68,99        | -69,61        | -70,45        | -71,65        | -73,38        | -75,72        |
| Tax shield  | -16,3386      | -16,0464      | -12,88308     | -11,473       | -11,5746579   | -11,7144565   | -11,9149938   | -12,2014152   | -12,5909542   |
| Net financial result                                | -55,91        | -45,41        | -55,68        | -57,52        | -58,03        | -58,73        | -59,74        | -61,17        | -63,13        |
| <b>Total comprehensive income</b>                   | <b>-60,01</b> | <b>-13,43</b> | <b>-28,13</b> | <b>30,95</b>  | <b>40,10</b>  | <b>97,77</b>  | <b>176,34</b> | <b>299,75</b> | <b>465,42</b> |

## Cash-Flow Statement reformulated

|  | 2014          | 2015           | 2016          | 2017           | 2018           | 2019          | 2020           | 2021          |
|--|---------------|----------------|---------------|----------------|----------------|---------------|----------------|---------------|
| <b>Operating result</b>                      | <b>4,80</b>   | <b>21,48</b>   | <b>90,74</b>  | <b>98,13</b>   | <b>156,50</b>  | <b>236,08</b> | <b>360,92</b>  | <b>528,55</b> |
| Change in Working Cash                       | 0,74          | 6,48           | 3,56          | 3,84           | 7,41           | 10,63         | 15,18          | 20,64         |
| Change in Trade Receivable                   | 16,82         | 33,26          | -23,07        | 7,74           | 14,96          | 21,46         | 30,65          | 41,68         |
| Change in Inventories                        | -71,41        | 1,28           | 0,36          | 0,52           | 1,02           | 1,46          | 2,09           | 2,83          |
| Change in Non-current assets held for sale   | 4,40          | -5,14          | 0,38          | 0,67           | 1,30           | 1,86          | 2,66           | 3,61          |
| Change asset held for sale                   | 95,19         | -50,16         | 1,65          | -11,69         | 30,00          | -25,00        | 25,00          | -15,00        |
| Change in Deferred Tax Assets                | -40,92        | 7,94           | -13,41        | 15,33          | 16,30          | 23,38         | 33,39          | 45,41         |
| Change in Trade Payables                     | 1,84          | 19,62          | -21,27        | -0,28          | 4,14           | 10,99         | 17,86          | 27,34         |
| Change in taxes and contributions as payable | 2,60          | 10,74          | -5,90         | -14,22         | 2,95           | 4,41          | 5,90           | 7,90          |
| Change in provisions                         | -11,44        | -9,51          | 6,13          | -3,63          | 0,75           | 1,12          | 1,50           | 2,01          |
| other current liabilities                    | 6,57          | -3,13          | 13,84         | 2,99           | 5,76           | 8,26          | 11,80          | 16,05         |
| Change in liab held for sale                 | 56,08         | -56,08         | 2,66          | 47,34          | -47,50         | 62,50         | -58,50         | 43,50         |
| Change in Deferred Tax liabilities           | -21,50        | 16,98          | -21,72        | 9,29           | 17,91          | 25,69         | 36,69          | 49,90         |
| Investment in NWC                            | 29,33         | -15,03         | 4,26          | 25,07          | -86,97         | 79,18         | -93,71         | 47,51         |
| Gross CAPEX                                  |               |                |               |                |                |               |                |               |
| Change in tangible assets                    | 108,62        | -117,81        | 22,74         | -287,84        | -351,08        | -363,65       | -406,55        | -410,09       |
| Change in intangible assets                  | -2,93         | -65,31         | -6,11         | -6,35          | -6,60          | -6,87         | -7,14          | -7,43         |
| Total investment in CAPEX                    | 105,69        | -183,12        | 16,62         | -294,20        | -357,69        | -370,52       | -413,70        | -417,52       |
| Total investment                             | 135,02        | -198,14        | 20,89         | -269,13        | -444,66        | -291,34       | -507,41        | -370,01       |
| <b>Total FCF</b>                             | <b>139,82</b> | <b>-176,67</b> | <b>111,63</b> | <b>-171,00</b> | <b>-288,16</b> | <b>-55,26</b> | <b>-146,49</b> | <b>158,53</b> |

## Disclosures and Disclaimers

### Report Recommendations

---

|             |   |
|-------------|---|
| <b>Buy</b>  | Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.   |
| <b>Hold</b> | Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period. |
| <b>Sell</b> | Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.           |

---

This report was prepared by *Morgan Trochu*, a Master in Finance's student of Nova School of Business & Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

This report is issued and published exclusively for academic purposes, namely for academic evaluation and masters graduation purposes, within the context of said Field Lab – Equity Research. It is not to be construed as an offer or a solicitation of an offer to buy or sell any security or financial instrument.

This report was supervised by a Nova SBE faculty member, acting merely in an academic capacity, who revised the valuation methodology and the financial model.

Given the exclusive academic purpose of the reports produced by Nova SBE students, it is Nova SBE understanding that Nova SBE, the author, the present report and its publishing, are excluded from the persons and activities requiring previous registration from local regulatory authorities. As such, Nova SBE, its faculty and the author of this report have not sought or obtained registration with or certification as financial analyst by any local regulator, in any jurisdiction. In Portugal, the author of this report is not registered with or qualified under COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS ("CMVM", the Portuguese Securities Market Authority) as a financial analyst. Rosário André - as the academic supervisor of the author - is registered as a financial analyst with CMVM. No approval for publication or distribution of this report was required and/or obtained from any local authority, given the exclusive academic nature of the report.

The additional disclaimers also apply:

USA: Pursuant to Section 202 (a) (11) of the Investment Advisers Act of 1940, neither Nova SBE nor the author of this report are to be qualified as an investment adviser and, thus, registration with the Securities and Exchange Commission ("SEC", United States of America's securities market authority) is not necessary. Neither the Author nor Nova SBE receive any compensation of any kind for the preparation of the Reports.

Germany: Pursuant to §34c of the WpHG (*Wertpapierhandelsgesetz*, i.e., the German Securities Trading Act), this entity is not required to register with or otherwise notify the *Bundesanstalt für Finanzdienstleistungsaufsicht* (“BaFin”, the German Federal Financial Supervisory Authority). It should be noted that Nova SBE is a fully-owned state university and there is no relation between the student’s equity reports and any fund raising programme.

UK: Pursuant to section 22 of the Financial Services and Markets Act 2000 (the “FSMA”), for an activity to be a regulated activity, it must be carried on “by way of business”. All regulated activities are subject to prior authorization by the Financial Conduct Authority (“FCA”). However, this Report serves an exclusively academic purpose and, as such, was not prepared by way of business. The author - a Masters’ student - is the **sole and exclusive responsible** for the information, estimates and forecasts contained herein, and for the opinions expressed, which exclusively reflect his/her own judgment at the date of the report. Nova SBE and its faculty have no single and formal position in relation to the most appropriate valuation method, estimates or projections used in the report and may not be held liable by the author’s choice of the latter.

The information contained in this report was compiled by students from public sources believed to be reliable, but Nova SBE, its faculty, or the students make no representation that it is accurate or complete, and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or of its content.

Students are free to choose the target companies of the reports. Therefore, Nova SBE may start covering and/or suspend the coverage of any listed company, at any time, without prior notice. The students or Nova SBE are not responsible for updating this report, and the opinions and recommendations expressed herein may change without further notice.

The target company or security of this report may be simultaneously covered by more than one student. Because each student is free to choose the valuation method, and make his/her own assumptions and estimates, the resulting projections, price target and recommendations may differ widely, even when referring to the same security. Moreover, changing market conditions and/or changing subjective opinions may lead to significantly different valuation results. Other students’ opinions, estimates and recommendations, as well as the advisor and other faculty members’ opinions may be inconsistent with the views expressed in this report. Any recipient of this report should understand that statements regarding future prospects and performance are, by nature, subjective, and may be fallible.

This report does not necessarily mention and/or analyze all possible risks arising from the investment in the target company and/or security, namely the possible exchange rate risk resulting from the security being denominated in a currency either than the investor’s currency, among many other risks.

The purpose of publishing this report is merely academic and it is not intended for distribution among private investors. The information and opinions expressed in this report are not intended to be available to any person other than Portuguese natural or legal persons or persons domiciled in Portugal. While preparing this report, students did not have in consideration the specific investment objectives, financial situation or

particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in any security, namely in the security covered by this report.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the target company and its securities. He/ She has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

The content of each report have been shown or made public to restricted parties prior to its publication in Nova SBE's website or in Bloomberg Professional, for academic purposes such as its distribution among faculty members for students' academic evaluation.

Nova SBE is a state-owned university, mainly financed by state subsidies, students tuition fees and companies, through donations, or indirectly by hiring educational programs, among other possibilities. Thus, Nova SBE may have received compensation from the target company during the last 12 months, related to its fund raising programs, or indirectly through the sale of educational, consulting or research services. Nevertheless, no compensation eventually received by Nova SBE is in any way related to or dependent on the opinions expressed in this report. The Nova School of Business & Economics does not deal for or otherwise offer any investment or intermediation services to market counterparties, private or intermediate customers.

This report may not be reproduced, distributed or published, in whole or in part, without the explicit previous consent of its author, unless when used by Nova SBE for academic purposes only. At any time, Nova SBE may decide to suspend this report reproduction or distribution without further notice. Neither this document nor any copy of it may be taken, transmitted or distributed, directly or indirectly, in any country either than Portugal or to any resident outside this country. The dissemination of this document other than in Portugal or to Portuguese citizens is therefore prohibited and unlawful.