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Investing in an Overleveraged Touristic Asset by Oxy Capital

Case Study

Hotel Praia D'El Rey Marriott Golf & Beach Resort

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ABSTRACT

In 2014, insolvent and owing €13M to the banks, HdP seemed to be in a unrecoverable situation. Three years later, the sales had doubled and the EBITDA had grown by almost 4x. This case study analyzes HdP's investment process by Aquarius Fund, managed by Oxy Capital.

It recounts the events that led to the overindebted situation in 2013, describes the challenges of negotiating with all stakeholders, the investment rationale, the transaction structure and the value created.

In the end, this study identifies the advantages of a PE investor over strategic buyers and approaches the future challenges of the exit.

KEYWORDS

restructuring; disinvestment; private equity; touristic asset

ABBREVIATIONS

GP – General Partner

HdP – Hotel da Praia – Gestão e Exploração de Hotéis, S.A.

HICs – Hotel-focused Investment Companies

KPI – Key Performance Indicator

LP – Limited Partner

NPL – Non-Performing Loans

PE – Private Equity

REITs – Real Estate Investment Trusts

RevPAR – Revenue Per Available Room

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THE TRANSACTION

It was a cloudy morning in Vale de Janelas, Óbidos. In this small village in the west coast of Portugal, located less than 20km from Peniche, the weather was usually cold, and the sky was grey, and that 1st of December of 2014 seemed to be a day as any other. However, something was about to drastically change in the beach and golf resort Praia D'El Rey.

As the employees arrived the Hotel Praia D'El Rey, they would find the new General Manager, Mr. Michael Jones, who had taken office just a few months before, sitting on a chair in the lobby. From that day on, nothing would be the same, and everyone knew it. The real question was if the change was for better or for worse.

The target

Hotel da Praia – Gestão e Exploração de Hotéis, S.A. is the company that manages the Hotel Praia D'El Rey, a 5-star hotel located in Óbidos, Portugal, under the Marriott brand. The Hotel has 177 rooms (168 rooms and 9 suites), 3 restaurants, 3 bars, 8 meeting rooms, 1 exterior and 1 interior swimming pool, 1 health club, 1 spa, 1 shopping area, 1 car parking and 1 kids' club. The Hotel is part of the Praia D'El Rey Golf & Beach Resort that includes other facilities as a driving range, a tennis court, football fields, an adventure club, and a golf course.

Lawfully incorporated in 1995, HdP was one of the several companies that constituted Béltico Group[1]. The Group concentrated its activity in the construction and real-estate development and management, owning properties in Portugal, United Kingdom and Brazil, and its investment strategy was focused in golf-related assets.

On the 31st of May of 2001, for the construction of the hotel, the company borrowed the maximum amount of €12,5M from a bank syndicate composed by Bank A (€8M), the agent

[1] In 2013, the HdP was owned by Béltico – Empreendimentos Turísticos, S.A. (42,20%), Béltico, SGPS, S.A. (27,80%) and Fundo de Capital de Risco FCR – F. Turismo (30%). To see Béltico Group's structure in 2013, please see 0.

bank, Bank B (€1.5M) and Bank C (€3M), giving the properties where the hotel was to be constructed as a guarantee. After some delays in the construction works, the Hotel started operating on 16th December 2003 and had its official opening in May 2004. Still, this long-expected moment did not arrive without struggle, as the mortgage loan had to be restructured four times[2], and was not enough to balance the accounts.

One month after the inauguration, the need of extra funding to finance additional investments, forced HdP to agree on a second Mortgage Loan Agreement with the bank syndicate. The banks lent an additional amount of €2M, constituting a second mortgage over HdP's properties.

Despite the good start, with revenues of more than 11M€ in 2006 and 2007, and an EBITDA of more than 1.4M[3], the sharp drop in the following years[4] aggravated the credit risk of the company. The solution was again found to be a reinforcement of the initial loan. Thus, in 31st May 2010, Bank A and Bank C lent another €1.4M, constituting a third mortgage and softening the loan conditions (term and interest rate).

With an EBITDA of €0.7M and a negative EBIT in €1M[5], the bank debt of €12.7M became unsustainable. Finally, in February 2012, HdP stopped paying the debt service and engaged in negotiations with the bank syndicate to find a solution. Both the banks and HdP knew that lending additional funds would only aggravate the problem instead of solving it, but an alternative solution was not at sight.

During the year of 2013, the directors made a final effort to lift the business up, aiming to reduce costs without jeopardizing the level of clients' satisfaction. The major change was the moving

[2] The Additionals to the Mortgage Loan were signed in 17/6/2003, 27/4/2007, 11/8/2009 and 30/12/2011.
[3] It is important to note that despite the positive EBITDA in the years of 2006-2008, the EBIT was positive only in 2006 (€0,3M was the reported value). In a touristic asset that owns the property where it operates, the EBIT is considered to be a more accurate metric to evaluate the cash flows. This is explained by the fact that the depreciations are a reasonable proxy for the required maintenance Capex. In fact, besides the regular operational costs (which are significant in a 5* hotel), the maintenance Capex is a key figure in the business plan of a touristic asset like this Marriott Hotel. About the disadvantages of using EBITDA as a cash flow metric (Gavin, 2011).
[4] It is not clear the reasons for this drop but the contraction of the overall touristic activity in the financial crisis years may have had a considerable effect on HdP's profitability.
[5] Reported values at the end of the fiscal year of 2011.

of the F&B department (restaurants and bar) from HdP to another Béltico Group's company, Bélticorest. The two companies would also share some services, as communication, employees' accommodation, meals, laundry, leasing rents and travel expenses. At this time, HdP's focus was paying its suppliers, aiming to keep the hotel operations running, in a last attempt to generate cash and survive.

The on-going negotiations with the banks were not leading anywhere, and the profitability of the hotel continued to plummet. During the year of 2013, the unsustainability of HdP's situation had become even more evident. Not only the cash generated[6] was not enough to allow HdP to fulfill its banking liabilities (of €13M), but it did not even have liquidity to pay it, as its current liabilities amounted to more than €6M and its current assets were registered in the balance sheet with a value of only €2.5M[7].

Finally, in March 2013, Bank B, creditor of €1.3M requested the insolvency of HdP[8], which was declared later that year in 27th June 2014, recognizing the existence of €17.8M of credits.

As the traditional means had been already exhausted (negotiating loans' conditions with banks and implementing operational changes, including intragroup transactions), a creative solution was desperately needed.

Investment rationale

Seven days before the declaration of HdP's insolvency, on the 21st of June 2014, Aquarius Fund, managed by Oxy Capital, acquired 90% of the bank loans over the hotel management company and, finally, in 2016, became its only shareholder. This was a lengthy journey, that did not start

[6] The FCF generated in 2013 was less than €1M (and in 2012 was even negative in more than €1M).
[7] In 2013, HdP had a cash cover (LTM cash flow/debt service, which includes debt repayments and cash interest) below 1 and a leverage cover (Net Debt/LTM EBITDA) of more than 30x – according to reported values.
[8] According to article 3 of (CIRE - Código da Insolvência e Recuperação de Empresas), a debtor is insolvent when it is in a situation where it is impossible for it to fulfill its due obligations ("É considerado em situação de insolvência o devedor que se encontre impossibilitado de cumprir as suas obrigações vencidas"). The impossibility is assessed taking into account all the liabilities of the debtor and its relative weight and relevance for the operations, as well as the circumstances of its default. Such factors may lead to the conclusion that the debtor is not able to continue to fulfill its commitments in general.

in 2014, but long before. The process itself demanded a significant investment in resources. From people to analyze the potential of the asset and to negotiate with the stakeholders to the opportunity cost of not pursuing other investment opportunities. What led Oxy Capital's partners to go after this project?

After an analysis of the asset and its financials, it was concluded that the potential of the Hotel was not being fully exploited. In 2012, the revenues amounted €6.8M, with a gross margin of 92%, the EBITDA €0.1M (1.2%), and the EBIT -€1M (-14.7%). In the following year, without the F&B revenues (moved to Bélticorest), the sales fell more than 30% to €4,7M, the EBITDA was €0,3M and the EBIT continued in the negative field.

Notwithstanding, this 5-star hotel had many advantages to exploit. It was associated to a well-known brand, only 1h20 distant from Lisbon and 30 minutes from the mediaeval walled village of Óbidos. It was located in the end of the Silver Coast, with a privileged view over the sea and access to quality golf courses[9]. It was focused on a segment little influenced by the seasonality and economic conditions – Nordic clients and golf players[10]. Those features supported the belief of its untapped potential. In fact, its value was internationally recognized for successive years[11].

The beginning of the Hotel da Praia happened simultaneously to a time of great encouragement to tourism investment. Between 2000 and 2006, Portugal's investment in the sector was around €4,000M, due to Portuguese government's incentives (e.g. QREN, PIT, PME Investe, Credit to the Investment in Tourism - Banking Protocols and mutual guarantees, venture capital and real-estate funds)[12]. However, the financial crisis had an impact across all economic sectors[13] and

[9] In 27th February 2015 the Hotel properties were estimated to have a value of €6.4M (evaluation by an independent entity).
[10] It was also chosen for the periodic Portuguese football team training.
[11] By the World Travel Awards, in 2007 and 2008, as "Portugal's Leading Resort", in 2009 and 2010, as Europe's Leading Golf & Leisure Resort and, in 2011, as Portugal's Leading Golf Resort (World Travel Awards, 2018).
[12] (Research, Turismo - Caracterização e Oportunidades de Negócio, 2010) and (Research, Confederação do Turismo Português, 2010). These incentives had results as the national hotel offer increased at an average rate of 1.8% and of 2.6% in available beds between 2000 and 2008.
[13] The Gobal GDP fell 0,6% and EU 4,2% year on year from 2005 to 2009. (INE (Instituto Nacional de Estatística), 2009).

the tourism was not an exception. After the historic growth in the previous years, the touristic activity's growth slowed down in 2008 and was negative in 2009. Worldwide, tourist arrivals declined in 2009, recovering greatly in 2010 (recording the highest year on year growth in international tourist arrivals of 6,6%). In Portugal, the total number of guests declined 4% from 2008 to 2009. In terms of global revenues, there was a drop of 10% in those years, but the recovery was slower, as the value of 2008 revenues was only met (and surpassed) in 2014. HdP seems to have suffered greatly from the downturn in tourism during the crisis. However, despite the overall trend of strong revival and the fact that golf was one of the main motivations for the tourists visiting Portugal, the company was not able to recover in the following years.

On the contrary, it was in May of 2014 that HdP entered the third loan agreement with Bank A and Bank C, amounting €1,4M. One can conclude that the market environment was not enough to explain the lack of profitability of this hotel. Rather, the industry appeared to be favorable, being one of the most important sectors of the Portuguese economy. The sector had high exports value, even towards more recessive periods – e.g. in 2008, the tourism contribution to exports was more than 14%[14].

Above all, the belief that there was room for operational improvements was the most attractive feature. Oxy Capital believed that with liquidity for capital expenses[15], a more efficient cost management and a more professionalized approach of the sales and marketing, could create great value[16]. It also trusted those improvements to be enough to overcome the Center Region hotels' usual difficulties, such as rarely being the first choice of customers, because of other

[14] In 2017, the tourism contribution was 18% (Gabinete do Ministro da Economia, 2018). For more detail: (Costa & Gouveia, 2010).

[15] At the time, the clients' reviews particularly criticized the fact that the hotel was outdated and needing renovation works. The estimation was that in 2013, simply to ensure the continuity of the operations, a Capex of almost €1,5M. was required.

[16] (PwC, 2018) "Instead of measuring external factors that have a short-term impact, we've judged opportunities based on their potential from a long-term perspective,". We believe it to be the same approach that Oxy Capital assumed in this investment.

alternative locations with better weather and more variety of leisure activities, as Algarve or Alentejo coast.

From creditor to shareholder

The transaction started even before Oxy Capital existed. The contacts with banks and the first approach to Béltico Group's main shareholder were established earlier. Then, with the incorporation of Oxy Capital, the plan to launch a touristic fund started to grow and formal sourcing meetings started to take place. At first, Portuguese banks were skeptical, because there were already other tourism investment funds (Explorer's Discovery Portugal Real Estate Fund and ECS's "Fundo Recuperação Turismo"). However, the Oxy Capital Partner who was leading the touristic investments of the new Oxy Capital's fund, Mr. Peter Miller, had already developed two major deals to present to potential investors: the acquisition of Amorim Tourism Group[17] and the acquisition of Béltico Group.

Finally, the banks agreed to get on board of the project. They would sell their credits to the Aquarius Fund and, in return, they would provide capital to the fund (capital received by the sale of the credits to the Fund) and receive participation units. This way, they would change their exposure from NPL to a participation in a private equity fund.

The operation was attractive for several reasons, which were considered to weight more than the disadvantages.

The disadvantages for the banks were (i) the management fees due to the general partner, Oxy Capital; (ii) the loss of seniority of their credits, as an equity participation and shareholders' loans are junior in relation to a third party's loan; (iii) the loss of guarantees – in this case, the banks had the first and the second hotel mortgages; and (iv) the transfer of control over the company's cash flows to a third party – the GP.

[17] Owner of The Lake SPA Resort, Vilalara Thalassa Resort, Tróia Design Hotel and Casino Tróia.

Firstly, the banks believed that without a restructuring, the company would bankrupt, and, at the same time, they trusted the GP, who had a skilled and motivated team with a strong track-record, would be able to successfully lead HdP in such a process.

Additionally, the banks were under pressure to clean their balance sheets from this kind of assets. After the crisis, new banking regulation[18] defined more demanding criteria on the capital requirements and broadening the risks covered, meant to reinforce the quality of the banks' own funds. The exchange of NPL for participation units would reduce the risk weight of the bank's assets, thus reducing provisions and the need of own funds and increasing banks' profitability.

This transaction was more comprehensive, which also made it more attractive to the banks. It also included bank credits over other companies of the Béltico Group[19] and also over Amorim Tourism companies and Quinta das Lágrimas. All these agreements were related as the banks were going to participate in the fund as investors and had an interest in the transaction as a whole[20].

The credits acquired by Aquarius amounted €12,6M: Bank A (€9,3M) and Bank C (€3,3M). The remaining financial creditors were still Bank B (owner of a credit of €1,5M), which did not participate in the transaction, and Bank A, which kept a small amount (€0,001M) to remain as Agent Bank[21]. After an external valuation of the credits, the debt of Bank A was acquired at par, and the debt from Bank C was priced with a small discount (2,4%) resulting from a lower

[18] European rules on capital requirements for the banking sector (Capital Requirements Regulation – CRR; and Capital Requirements Directive – CRD IV) are part of the banking union's single rulebook and implement the Basel III agreement in the EU legislation, since 1st January 2014. Basel III is an international agreement that aims to improve the banking sector ability to absorb shocks from adverse economic and financial scenarios. The banks' main concern is meeting the solvency ratio (which consisted in the own funds of the bank over the weighted assets value according to their credit, market and operational risk), which has to be at least 8%. The risk weight depends on the exposure, the credit category, the attributed ratings and the existence and quality of collaterals. Thus, by reducing the risk weight of the assets, the ratio increases, this way more easily avoiding the need of new capital injections.
About CRR and CRD: (European Council of European Union, 2018).

[19] The investment rationale of the acquisition of the Group was the ownership of strategic assets, business resilience (Marriott brand), cash flow generation with interesting EBITDA margins and, finally, the expansion potential on the surrounding area (construction of two hotels and several apartments and residences).

[20] Particularly, the credits assignment (concerning the Béltico Group companies) entered into with Bank A and Bank C, would only have effects if the assignment agreements regarding the other companies were signed.

[21] For more detail please see .

valuation. Regarding the financial debt, there was no haircut, the restructuring was limited to the term of payment, grace period and interest rate. The purpose of becoming the main creditor of HdP was to have the decision power in the insolvency process. Simultaneously, the negotiations with the shareholders were leading to a positive result and they agreed at last to step aside from HdP and make way for a new owner.

Six days after Aquarius' acquisition of HdP credits, the court declared HdP's insolvency and appointed an insolvency administrator, recommended by Oxy Capital. Oxy Capital's team worked with the insolvency administrator to engineer a plan that would rise HdP to its full potential and generate returns to the Fund's investors.

According to the Recovery Plan approved by the Creditors Meeting in 13th January 2013 and judicially homologated later in 23rd February, the creditors were divided into different tranches and the correspondent debt (amounting €17,8M[22]) was restructured. Both the Social Security's credit (guaranteed credit) and the Tax Administration's credit (common credit), amounting to €0,1M and €0,3M, would be fully paid (including capital, interests, legal expenses, fines and other accruals) in 100 and 150 monthly installments, respectively[23]. The subordinated credits (shareholders' loans) would not be paid. The remaining credits (guaranteed and common) would not suffer any haircut, but the conditions of repayment and the interest rates were redefined, in order to allow for the recovery of the company. It was agreed that there would be a grace period and an extension of the payment schedule. Particularly, the guaranteed credits would also have increasing interest rates and spread, so that the service debt would be lower in the first years of restructuring. This solution had an estimated recovery rate of 93% of the total

[22] For more detail about the insolvency debt see 0.
[23] Such restructuring was expressly allowed by the Portuguese Law.

debt[24] (total recovery of all credits except the subordinated), while the recovery in liquidation was expected to be around 38%[25], in the best-case scenario[26].

Thus, instead of stripping out the assets, Oxy Capital would add value through hands-on approach, this way creating a long-term value in businesses, reaping the rewards when the company would be successfully recovered and grown[27]. This solution would also have a positive impact in the region and on the employees.

The plan also envisaged the entry of Aquarius in the HdP's share capital. The entry occurred through an operation of reduction of the share capital (at the time of €5,75M) to zero, followed by an increase of €50k ("operação harmónio")[28] [29]. The share capital increase was done through Aquarius Fund's cash contributions (new money) in April 2016. With the entry of Aquarius Fund in HdP's share capital, a new board (composed by partners of Oxy Capital) took office.

Notwithstanding, even before the formal entry as a shareholder, Oxy Capital had already promoted crucial changes in the management of HdP. In cases of investment in distressed companies, an interim management is key, as the persistence of bad management can effectively preclude the survival and recovery of the company. Thus, the hired hotel management company and financial controller from one of the big four were essential in this initial phase to assess the situation and to reverse the course of the business.

[24] The recovery rate was computed by summing the value of the debt recovered not accounting for the time value of money (the fact that the service debt was delayed and extended would have a negative impact if the cash flows were to be discounted in the calculations).
[25] Please see 0 regarding the Recovery Rates in a liquidation scenario and in a going concern scenario.
[26] This percentage could be even lower as in a fire sale the assets are commonly sold with a significant discount (usually 15-20%) in order to attract more bidders and as the price would be primarily used to pay the expenses incurred with the sale.
[27] (Kehoe & Palter, 2009) – in this study the authors argue that if the overindebted companies owned by PE firms in the 1990 downturn would still go into bankruptcy, they would be more valuable than if such investment had not occurred (even accounting for the reorganizations costs).
[28] According to article 198, number 3 of (CIRE - Código da Insolvência e Recuperação de Empresas), the Insolvency Plan may approve a decrease in share capital until zero, if followed by an increase until the statutory minimum (€50,000) or to a larger amount. This is allowed only if, in case of complete liquidation of the company's assets, there would be no residual capital to distribute among the shareholders. This was the case of HdP.
[29] The share capital was acquired by two vehicle companies: Belobidinvest S.A. (85%) and Polo Meridiano S.A. (15%), both fully owned by Aquarius Fund.

VALUE CREATION[30]

Immediately after the credits acquisition by Aquarius, the new management team took the wheels of the Hotel, focusing on four main areas: revenues, costs, clients' satisfaction and collaborators satisfaction.

The turning point occurred precisely on that 1st of December of 2014. At the Hotel lobby, Mr. Jones was handing employees new labor agreements or a dismissal letter. The management team had conducted an evaluation of each employee and of the human resources effective needs for HdP's operations and the results were being implemented. Given the close connections and unclear segregation of Béltico Group's companies, it was crucial to clarify the teams that were effectively allocated to HdP's operations[31]. The "approved" employees were given the choice to sign a new contract or to terminate the labor relationship with HdP in that day. To ensure that there would be employees to substitute in case of refusal by the former employees, the management had already a backup team ready to take on the job. Fortunately, and due to the communication and transparency with the employees in those difficult summer months, people already trusted the new management, and all got on board.

This is a case that contradicts the general perception that PE firms cut jobs in the businesses they back up[32]. The jobs' cutting that occurred in HdP was minor and was almost limited to senior layers in excess and jobs that were not in fact allocated to the hotel but to other Béltico Group companies.

Simultaneously, the General Manager was terminating the services and supply agreements with Béltico Group's companies[33] and entering into new agreements with third parties. Again, this

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[30] Exhibit 7.

[31] At the time, not all the Béltico Group's companies had been acquired by Aquarius Fund.

[32] (EY, 2013) – This study, which analyzed disinvestments from 2005 to 2013, shows precisely that the employee numbers increased annually with the investment by PE firms, and increased 2% from entry to exit. And not only the number of jobs increased but the productivity also improved.

[33] Services agreement in the F&B area with Bélticorest, gas services with Gasbéltico; maintenance agreement with Manbéltico; etc.

was carefully prepared months before. Tough conversations were held with suppliers in the previous months. Strong negotiation skills were much required, and so was a solid and reassuring business plan to present, in order to convince companies to agree to have an insolvent company as a client.

The day finished with a general meeting with the staff, Mr. Jones and Mr. Miller. Again, communication was key.

During the following months, other changes were put on the move: the F&B department was reshaped[34], a monthly treasury and payments monitoring plan was developed and a new human resources strategy was outlined.

Regarding human resources, there were indeed many positive changes. Several training and professional development programs were put on the move, so that the staff and services would meet Marriott's standards. More importantly, the management implemented an incentives plan[35], a benefits plan, an evaluation system and feedback meetings with employees. The General Director favored a close relationship with the staff and he regularly communicated the overall strategy, targets and results of the hotel. The objective was that each employee would feel as it was a key piece of the hotel engine and fundamental to its success. This aim was achieved in another very concrete way. Management incentivized employees to make improvement suggestions and, after an analysis of the ideas received, the General Director would inform the ones that were actually going to be implemented.

From a human resources point of view, the strategy carried out was a tremendous success. The staff became a cohesive team and was aligned with the effective needs of HdP in each period

[34] A new F&B team was hired – the new F&B Director was an ex-Starwood and the Executive Chef an ex-Four Seasons; greater control over the stocks was imposed, resulting in less waste and breaks, and the F&B offer was reviewed, with an increase of the food quality and presentation. According to (Hultén & Perret, 2018), because "travel is increasingly viewed as an 'experience'", there has been a growing interest "in areas with further revenue potential", as F&B operations.

[35] The incentives were aligned with the hotel's performance. There were cross-cutting objectives as EBITDA and overall Booking rating; but there were also specific targets for determined roles. For example, the commercial department would have to capture a certain amount of revenues from a certain market segment, the cleaning department would have to achieve a certain rating of cleanliness in Booking, etc.

of the year. During the low season, there would be less employees working (but accumulating hours in the hours bank), and during the high season, the employees would work more hours, avoiding the hiring of temporary workers with lack of know-how and experience. The staff was very incentivized. People understood that a turnover was being implemented and they were part of that. More than that, each one felt as being important for the overall success. This attitude enabled New Year's Eve, a very busy time of the year, to be effectively handled, with very good reviews from the clients[36].

However, another issue was urgently requiring attention: HdP's relationship with Marriott. The international hospitality company had an overdue credit over HdP of around €0,3M. How would this group look at the insolvency of HdP? Not only would it severely hurt the overall Marriott reputation, but also HdP would not be able to continue to pay the 3% franchise fee as it was settled in the franchising agreement. The situation called for drastic measures. Therefore, Mr. Jones and Mr. Miller caught a plane and flew to London to meet the Marriott Europe's CEO. After intense negotiation, numerous meetings and even visits of the Marriott Europe's senior management to Praia d'El Rey, a new agreement was closed. Instead of a fixed sum, the fee was set in a ramp-up scheme, having levels through time, allowing HdP to recover its financial balance. At the same time, the other creditors agreed to the importance of paying Marriott's overdue debt before them, as it was a payment to renew the franchising license, allowing the maintenance of the Marriott brand, one of HdP's most valuable features.

The long-expected and needed renovation construction-works were finally conducted during the month of January, in 2017. With a Capex of approximately €1.8M[37], the lobby, the restaurants and the bar were redecorated and new TV and wi-fi equipment was installed.

[36] According to the "GuestVoice" an evaluation system of Marriott, the overall satisfaction of the clients increased from 5,7 in 2014 (26th place from 98 Marriott establishments in Europe) to 9,1 in 2017 (2nd place from 98 Marriott establishments in Europe). Regarding the staff service, the rating improved from 7,1 (52nd) to 9,5 (3rd).

[37] In 2017 only €1.8M from the projected €2.9M were carried out. The remaining works (rooms and meeting rooms refurbishment) occurred later in 2018.

In January of 2018, pursuing a broader portfolio management strategy, Oxy Capital decided to terminate the management services agreement with Mr. Jones' hotel management company, and the Hotel was, from that date on, managed by Blue&Green (former Amorim Turismo). This company was owned by Aquarius Fund, since the acquisition of Amorim Turismo Group, and was responsible for the hotels and touristic assets of the group. By having the same management team in charge for all its touristic assets, Oxy Capital expected to create value by exploring synergies between its portfolio's companies. After the transition, HdP's continued to improve and deliver extraordinary results[38].

What was behind this success? Would the recovery of HdP have been possible without a private equity fund as shareholder?

[38] The Hotel is evaluated periodically by a specialized and independent entity. In January of 2015, the Hotel was evaluated in €15.4M; in December of 2017, in €16.1M and, in December of 2018, €24.9M (an increase of almost 62% in two years and more than 50% in the last year).

Discussion Questions

What were the key drivers of the operational turnaround?

With the acquisition of HdP's debt, a new management team was hired by the insolvency administrator. The professionalized team made a previous assessment of the current situation and designed an integrated strategy for the resort (including the hotel, apartments, restaurants, golf, spa and health club). Some key aspects were redefined, such as a clearer value proposition, the positioning of the hotel, the pricing, distribution channels and promotion strategy. The management also created a KPIs measurement system to evaluate stakeholders' satisfaction (clients, suppliers and employees) and assess the real performance of each initiative. Also, the Directors hired revenue management and strategic marketing services, with costs savings and better insights on clients' behavior, expected revenue and occupancy rates.

Focusing on clients, the management implemented all-year-round activities, targeting the most attractive customer segments (business, senior and families) and increased the quality of the F&B services. Finally, to meet recurring negative reviews, it was made a significant investment in refurbishment works, to modernize the hotel and have a new provider of TV and wi-fi signal.

In human resources matters, there was a tight management of the employees needed in each time of the year according to the seasonality of the business, having been eliminated some redundant jobs. The productivity and quality of the services increased as a result of training sessions and motivational schemes (e.g. communication, benefits, incentives).

The final success factor was of course the rigorous financial control. The new management segregated the Béltico Group companies' accounting, implemented bills and treasury control and an on-time monthly reporting procedure. The cash flows were rigorously projected and there was a tight monitoring to avoid budgets' skids. To this contributed renovated control over the purchases department, having been renegotiated several supply agreements translated into relevant cost savings and a more effective working capital management.

What were the advantages of having a private equity investing in HdP?

The abovementioned success factors comprise a usual management plan of action in a restructuring turnaround[39], which could be, in theory, have been implemented by any management team. But would it have happened with a different shareholder or investor? Several studies argue that PE firms outperform the strategic buyers in all steps of an M&A process, not only in due diligence, negotiation and transaction process, but also in post-acquisition value creation[40] [41]. In this particular case, what were the advantages of having Oxy Capital investing in HdP, despite its lack of expertise in the industry and in this particular business? Were there advantages that Oxy Capital, as PE firm, had over any other type of investor or shareholder?

In March of 2013, with a pending insolvency process, a worn-out relationship with its main creditors, inefficient operations that would not generate enough cash to sustain the business nor to service debt and assets which lacked maintenance and renovation works, HdP's situation seemed unbearable.

Oxy Capital, as any other private equity firm, has expertise and invests much of its time in deal sourcing. Its analysts create sourcing tools to identify potential targets and analyze the disclosed financials and other public information of many companies, which they complement with shareholders and managers' meetings. These practices combined with partners' contacts from investment bankers, M&A intermediaries and top managers from different industries, allow Oxy Capital, and other PE companies, to be in a better position to identify interesting targets in

[39] According to (Fæste, Schönfelder, Gruß, & Lay, 2016) after a triage and assessment stage, there are three pillars that should be implemented in this type of operations: funding the journey, winning in the medium term and organizing for sustained performance. In a way or another, they have been approached by Oxy Capital in HdP's restructuring process.

[40] (Kehoe & Palter, 2009): "Despite the current difficulties, it bears remembering that the best private-equity firms have persistently outperformed both their private-equity counterparts and the public-equity markets, in good times and bad, over the past two decades.". (Kazimi & Tan, 2016) – after entering into distress, private-equity backed companies recovered their EBITDA margins significantly faster than their public counterparts did. Also (Vild & Zeisberger, 2014).

[41] (EY, 2014) – "Our study this year views the industry's value creation record through a long-term lens. It shows that while PE has not been immune from the swings of the capital markets and the cyclical nature of the wider economy, it has continued to deliver returns to its limited partners (LPs) by first investing in the right businesses and then building long-term sustainable growth in the companies it backs.".

first place, avoiding competitive processes in some cases. In this particular case, Oxy Capital identified the target before others but was also able to see potential where others did not see. This was its first advantage in the investment under study.

The second great advantage in insolvency processes like HdP's – where there are several stakeholders on the table and where negotiations are already drained – is the PE team's reputation. The recognized and experienced team, with a strong track record and an extensive network, gives credibility and it is an impartial entity between all the interested parties, creating a better environment to discuss the issues on the table. This gave Oxy Capital an edge over a strategic player that could be interested in the company. In fact, Oxy Capital's team conducted the negotiations with former shareholders, banks, new suppliers and Marriott's top management, directly or by giving support to the insolvency administrator and the later hired management team. By working alongside the insolvency administrator and the management, it was designed a well-defined recovery plan and a strategy with precise milestones which convinced not only the banks, and future investors, but Marriott Europe's directors.

Oxy Capital's team added to its reputation, another trump card that helped it to build the stakeholders' trust: the direct link between its payoff and HdP's recovery and success. Although part of the Fund's returns was fixed (management fees and the scheduled repayments and interests charged), without cash generation there would be no yield.

This leads us to the next advantage that a PE firm has over other buyers or investors. As it answers before its limited partners (fund's investors), it is very focused on returns, having a specific IRR to achieve and precise methods to measure cash returns. The cash flow management emphasis is even more augmented since there is a short timeline (at least shorter than the strategic buyers usually consider) to realize the returns[42]. In recent years, PE firms have

[42] As Felix Barber and Michael Goold put it on (Barber & Goold, 2007), because of the buy-to-sell approach, "the business is under pressure to perform". With the same opinion but mentioning a drawback of this approach, (Vild & Zeisberger, 2014): "there may be moves that could strategically benefit the target's business in the long-term,

been moving towards value creations strategies that are more centered in operational improvement, this is making the business to run more efficiently, rather in deleveraging or multiple arbitrage[43] [44]. And HdP is an example of such strategy.

There are several ways to achieve operational value creation, which cannot be considered as a simple cost-cutting process. It involves indeed direct cost value creation (efficiency improvement and asset utilization enhancing) and indirect cost value creation (e.g. "increasing span of control, reducing layers of management and increasing usage of low-cost staff; outsourcing; facility rationalization; establishing shared services"[45]); but also sales growth[46]; free cash flow management (improving cash flow forecasting and controlling working capital management) and others. As seen above, the management of HdP took measures in each of these areas.

However, many times, in fact, most of the times, for the business to grow and develop, it requires some capital expenses. That was the case of HdP. Again, in this matter, PE firms are ahead of strategic buyers. Strategic buyers earn capital either from operations or from bank loans. When the business is in distress, it does not generate cash to incur in capital expenses nor to service debt and the company is not in conditions to be granted credit, as it was happening with HdP. Contrarily, PE investors have capital from the LPs to apply on the companies in

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however, the investment horizon may be too short for the PE firm to reap such benefits (either directly or in the form of a higher exit multiple)".

[43] (Oldroyd, 2016).

[44] Typically, PE firms have three sources of value creation: (i) EBITDA growth (related to operational improvement and business growth); (ii) deleveraging (by investing through debt, PE companies acquire a stake in a company using third party's capital, thus limiting the real investment, known as ticket; then, during the holding period, as debt is repaid, more of the enterprise value is translated into equity value, increasing the shareholders' value) and (iii) multiple arbitrage (increase of the exit multiple – comparing with the entry multiple – which can be a result of the macro environment movements or specific sector dynamics; as the multiple increases, the enterprise value increases and the company is sold for a higher price) (Kazimi & Tan, 2016). Statistics show that, in recent years, PE firms tend to favor operational improvement and buy-and-build strategies over deleveraging or multiple arbitrage value creation sources, resulting in longer holding periods, especially in restructuring cases as HdP's (PwC, 2018). According to (Anand, Kinneally, & Hurrell, 2016), in the 80s, the leverage effect "accounted for roughly 50% of value creation for PEs, with less than 20% attributable to operational improvement", in contrast, recently, the percentages have reversed, with the leverage effect accounting for 20% and the operational improvements for more than 50% of value creation. Also (Brigl, Jansen, Schwetzler, & Hammer, 2016).

[45] (Anand, Kinneally, & Hurrell, 2016).

[46] (Anand, Kinneally, & Hurrell, 2016) – the sales growth accounts on average for 50% of the operational value created.

which they invest. Actually, when evaluating the company's potential, the business plan and cash flow map designed by the PE team include the Capex needed to achieve the desired growth. Besides, such projections are commonly conservative, this way allowing in every moment the existence of enough headroom, giving PE houses the flexibility and means to anticipate and correct unexpected crisis situations[47].

In fact, we believe the financial rigor to be the greatest advantage over strategic buyers. Financial discipline has a crucial role not only in the investment decision but throughout all the holding period and it is also reflected on governance matters.

In terms of governance, the incentivized atmosphere is key. The measure of performance helps to create a motivated environment for the portfolio companies' management but also for the PE team. As seen above, HdP's management set up an incentives scheme where the bonuses and variable remuneration of the employees and management were linked to specific KPIs. Concerning the private equity team, it is commonly referred their ownership mindset, which is the result of several features of the PE model (e.g. the GP's remuneration by a carried interest; the link between individual remuneration/bonuses and the affiliates' performance; the personal liability for being corporate directors). Such relationship gives each member of the team a totally different involvement in the projects, being very motivated to grow and improve.

Hence, PE companies are typically active shareholders who give support to the management and who provide strategic leadership[48]. They define a strategy and prioritize the areas to focus, according to the expected outcomes, the delivery risks and, of course, the capital requirements[49]. And, then, they support the necessary changes.

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[47] (PwC, 2018): "This yet again underlines and proves the maturity that private equity has achieved – the focus on the portfolio companies has become stronger and more anticipative – private equity fund managers step in and intervene much earlier to change and restructure in order to make them fit for the future and more resistant to market shocks and changes as well as gives them more freedom they need to mull through volatile market conditions they are faced with.".

[48] (Kehoe & Palter, 2009): "Active ownership is its biggest competitive advantage over companies in the quoted market: the best private-equity firms are more effective because of their stronger strategic leadership and performance oversight, as well as their ability to manage key stakeholders.".

[49] (Oldroyd, 2016).

In this case, Oxy Capital has suggested the insolvency administrator to the court and the new management team and financial controller to the insolvency administrator (again leveraging its network). Then, it was developed a business and treasury plan, with specific performance targets and a timetable of action, alongside with the management team. This was the first step to be able to hold the management accountable for future results[50].

The business plan envisaged considerable changes that only a flexible owner would be able to carry out. Strategic buyers, on the other hand, are commonly more reluctant to impose major changes as they are afraid of jeopardizing future cultural integration. They usually acquire a company to fully integrate it in the existent business and the cultural integration has been appointed as the main reason for M&A transactions failure[51]. As so, this type of buyers cannot be careful enough. Besides, they have more rigid structures concerning the business itself and more incentives to try to "justify the permanence, find synergies and mitigate losses in other businesses of the portfolio"[52].

Taking into account the business plan, Oxy Capital is constantly monitoring its affiliates' performance, having a team assigned to review specific KPIs and milestones, thus creating pressure over the management. But more than pressure, the PE team gives support and it is available for discussion of specific initiatives. This occurs both at board level (in 2018, HdP's Board of Directors was composed by an Oxy Capital's partner and an associate and by the CEO of Blue&Green), but also outside the board, with regular discussions with management. Nevertheless, as Aquarius Fund has an affiliated company specialized in the management of touristic assets, the involvement on the daily management is more indirect[53]. The advantage of

[50] (Kazimi & Tan, 2016).
[51] (Zeisberger, 2015) – According to this study, "between 50 percent and 70 percent of all M&A transactions fail to achieve their objective, often due to the difficulties in blending the two cultures".
[52] (Barber & Goold, 2007).
[53] (Hammoud, Brigl, Öberg, Bronstein, & Carter, 2017): "Yet classic operational improvement programs, such as "check the box" exercises to reduce costs and boost revenues, are hitting their limits of effectiveness. Similarly, the relatively passive, monitor-only approaches of yesteryear are no longer enough; industries (…) are being jostled and jolted so much that today's portfolio businesses require constant interaction, exposure, and insights from experts—either internal or external— as well as a constant recalibration of the growth assumptions behind the investments themselves.".

this method is that managers feel more independent as they receive the trust of the shareholder in their ability to successfully conduct the businesses. This has proven to be a very productive and fruitful type of relationship between the portfolio company's management and the PE team. First, the roles and responsibilities are clearly defined. Then, instead of directly controlling the daily decisions, Oxy Capital's team is constantly challenging managers and putting emphasis on the milestones, this way driving "business decisions by influencing and questioning"[54]. At the same time, Oxy Capital's team gives technical advice in more difficult or technical (generally in working capital requirements) matters. Although it does not have specific know-how on the industry, the experience with other companies allows it to get acquainted with best practices that can be transposed to other sectors.

Hotel da Praia has been a successful restructuring case by a private equity firm where the key features that give this type of investors an edge over strategic buyers become evident[55]. Nonetheless, the process had not ended, and it is important to plan and prepare the future.

What's next?

PE firms invest capital in private companies (or public companies delisted after the entry), for multiple years (the rule of thumb is 5 years), and by taking control over the businesses, they implement strategies to achieve long-term results. The restructuring cases are slightly different as the holding period is usually longer and because usually most of the investment is made through debt acquisition. Nevertheless, in both cases, the end is always the same: sell the asset after a certain holding period to give the capital back to investors, desirably with some plus. Therefore, as most of the return is realized with the sale, the exit is a key step of any investment.

[54] (Haas, 2014).

[55] For a comparison of sales growth of Portuguese hotel companies owned by PE firms and by Hotel Groups, see Exhibit 8.

Aquarius Fund, being HdP's ultimate shareholder, will have the opportunity to generate great value with the sale of this asset where it invested only €3,5M of new money. Hence, the exit's timing and strategy should be planned in advance and periodically challenged against the asset's future growth potential and weaknesses and the market's environment[56].

The analysis of the company is important because a successful exit is the one that allows the new investor to continue to create value after the purchase. Well, when buying a company, PE firms aim to extract as much value as they can by improving the operational efficiency, as it has been happening in HdP. Consequently, there is a great risk of exhaustion of the value creation opportunities at the time de investor wants to sell the business[57]. Also, as the investment achieves some results, the management may get distracted in the final years of holding period, loosing up the focus on searching for new growth opportunities. The difficulty increases as investors have become more sophisticated and demanding in recent years. These are challenges that Oxy Capital will face when selling HdP. Indeed, although there are still paths for growth in the Resort, with the possibility to build a second hotel, more apartments and another golf course; for HdP, the headroom for improvement is becoming less and less obvious. In fact, HdP is already above its peers on the industry's main KPIs[58].

The market conditions and cycle are also critical to decide if the timing is right, if the exit valuations are attractive and what is the most suitable exit type.

Currently, the M&A market is effervescent, with high number of transactions and with multiples and valuations beating historic records[59]. In Portugal, M&A transactions have been increasing in average value, although decreasing in volume, through the last four years (in 2017,

[56] According to (Green, Hayes, Seghers, & Zaets, 2018), a year and half before the intended date for the exit, the PE team should focus more intensively on the exit analyzing the company and the market.
[57] (Green, Hayes, Seghers, & Zaets, 2018): there must be a "pipeline of value-creation initiatives that can be extended after the sale to the next owners"; "sellers must leave a few clear, strategic options and performance-improvement opportunities on the table".
[58] For a comparison of RevPAR and Occupancy Rate of 5* hotels in Portugal and in Center Region – Exhibit 7.
[59] According to (PwC, 2018), the average multiples and valuations are "higher than before the financial crisis in 2008".

there were 242 transactions, 86 by foreign buyers, with an aggregate value of €9,092M[60]), while the PE transactions have experienced the reverse trend: increase of volume and decrease of average value (in 2017 the total value was €5,816M)[61]. The expectations are that the most active sectors continue to be tourism, real-estate, infrastructures and energy[62].

Concerning the hospitality sector, in 2017, the total European hotel transaction volume reached €21.7 billion (22% more than in 2016, slightly less than the record level of 2015 of €23.7 billion, surpassing pre- crisis levels of €20.3 billion of 2006), with investors from all around the globe[63]. The buyers of touristic portfolios were REITs (32%), PE firms (26%), HICs (20%), institutional investors (13%), hotel operators (11%) and hotel owner-operators (7%)[64].

Narrowing to Portugal, there were 14 deals related with tourism, hotels and restaurants (being the 6th sector with more deals), accounting for €135.22M of transactions total value (being the 12th bigger sector in terms of transactions global value)[65].

Indeed, the tourism sector has grown spectacularly, and the outlook is promising[66]. In Portugal, between 2012 and 2017, the number of guests increased 50% (from 13.8M to 20.7M) and the occupancy rate 30%. In the Center Region the growth of guests and of occupancy rate has been even more accentuated (53% and 33% respectively)[67].

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[60] For a Portuguese M&A market overview: (Transactional Track Record, 2018); (Galvão, 2018); (Jornal Económico, 2018) – this study indicated slightly higher values: 327 transactions amounting €11,400M.
[61] (Transactional Track Record, 2018); (Golman, 2014); (EY, 2016); (Kengelbach, et al., 2017). The low yield environment has led investors to reinvest their capital into PE funds, increasing the levels of dry powder (money raised but not yet invested). As a consequence, and adding the increasing competition, PE houses have been struggling to find targets in which invest, with the repercussion of lower average returns. "The European deals market had grown impressively by a CAGR of 9.2% since 2012, despite geopolitical uncertainty and tremors, as well as market volatility and low growth macroeconomic conditions." (PwC, 2018).
[62] (Transactional Track Record, 2018).
[63] (Rey, Castells, & Szabo, 2018).
[64] (Rey, Castells, & Szabo, 2018).
[65] The top three transactions in the tourism sector were (i) the acquisition of Intertur Hotels (Balearic hotel group) by KKR (global investment firm that manages different asset classes), Dunas Capital (Iberian asset manager) and Alua Hotels & Resorts (hotel group) for €100M; particularly interesting for this case study, was (ii) the purchase of Hotel Royal Óbidos by LNMK – Fundo de Capital de Risco to Millenium BCP, for a price of €31,2M and (iii) D1 – Atividades Hoteleiras e Turísticas by Oaktree Capital Management and ECP – Estoril Capital Partners to Mobiser and Ordep (for €3,69M).
[66] (Hultén & Perret, 2018) – "business and consumer confidence, as well as GDP growth in Europe, are all riding high" and "hotel demand is strong across the majority of European markets, with low levels of new supply".
[67] (Turismo de Portugal, 2018).

Moreover, there are many players[68] in the market that could be interested in buying the Resort, from strategic players[69] (this is, Hotel Group companies) to PE investors[70] and more specialized investors[71] as "hotel real estate returns remain appealing compared to other asset classes"[72]. In the last years, foreigners have been showing interest to invest in Portuguese touristic assets, looking to features as natural resources, climate, hospitality, availability and quality of infrastructure[73]. In this matter, Portugal was awarded in 2018, for the 5th consecutive year, the best European Golf destination, due to its integrated touristic experience, sunny weather, accessibility, hospitality, sport and hotel infrastructures and relation price/quality[74].

Such a context looks particularly favorable to the asset's sale, especially considering that the positive environment may not remain in the following years. In fact, the hotel sector is deemed to have a cyclical performance and the downturn is expected to occur in the next years[75] [76]. Also, future inflation and an inevitable rise of interest rates will reduce capitalization rates. As so, a sale's delay may have a negative impact in HdP' valuation by potential buyers, and thus in the Fund's returns.

In conclusion, considering the asset's future growth prospects and the market's conditions, it seems that this is a particular opportune moment to disinvest from HdP.

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[68] (Hultén & Perret, 2018).
[69] (Invest Europe, 2018) – In Europe, in 2017, the trade sale continued to be the exit route with the largest number of deals. The strategic buyers' main advantage is their ability to extract value from synergies between their companies.
[70] Nevertheless, PE investors continued to be net sellers in 2017 (Hultén & Perret, 2018).
[71] The progression of PE until becoming a more mature sector, not yet in Portugal, but already in some European countries, has led some firms to move "away from a homogenous approach to investing towards a strategy of sector focused targeting enabled through a proven track record and industry specialization" (PwC, 2018), which may give them the ability to extract value where one thinks it has already been exhausted or even to take advantage of synergies between portfolio companies as any other strategic player.
[72] (Hultén & Perret, 2018).
[73] (Barroco, 2014) – According to this study, from the 300 bigger hotel chains, 22 had investments in Portugal in 2014 (and 8 belonged to the top 10) and they represented 22% of the total bed of Portuguese hotels (in the Center region, the percentage was almost 24% at the time).
[74] (Turismo de Portugal, 2018).
[75] (Marriott, 2016); (Hultén & Perret, 2018).
[76] "With the last down cycle occurring in 2010, some speculate soft market conditions to be imminent, particularly because cycles generally occur every 10 years. However, despite pockets of uncertainty, those bullish on future hotel performance seem to outnumber industry detractors." (Deloitte, 2018)

EXHIBITS

Exhibit 1

Oxy Capital and Aquarius Fund

Oxy Capital – Sociedade de Capital de Risco, S.A. is an independent Portuguese private equity firm, held by its management team, with an extensive expertise especially in the industrial sector. It was incorporated in 2011 and launched its first fund, "Fundo de Reestruturação de Empresas" ("Companies Restructuring Fund"), to exploit the macro economic difficulties created by the financial crisis. At the time, many Portuguese companies were financially distressed, and the banks were under strict regulatory demands concerning own funds – balance sheet cleaning was a priority, to avoid new capital injections by the shareholders.

In 2014, Oxy Capital launched its Aquarius Fund, aiming to increase the value of overleveraged touristic and real estate assets through restructuring processes, enabling the companies to take full advantage of its growth potential. The Fund leveraged on the Portuguese banks' demand for buyers for their non-performing credits related to real-estate assets, thus it invested mainly through debt instruments. Hence, the Fund's LPs are the Portuguese banks Millenium BCP, Caixa Geral de Depósitos, Novo Banco, Santander and Caixa Económica Montepio Geral, and also Parvalorem. In the end of 2018, Aquarius had the following investments: Amorim Turismo Group (The Lake Sea Resort, Tróia Design Hotel, Vilalara and Verdelago Resort Hotel); Quinta das Lágrimas; Béltico Group (Praia D'El Rey Marriott Golf & Beach Resort and West Cliffs) and Belloliva (agriculture property with olive grove).

Oxy Capital currently runs eight funds, focused not only in restructuring but also in growth (organic and by acquisition) and shareholding restructuring.

Source: Oxy Capital

Exhibit 2

Short Biographies

Miguel Lucas – having completed a degree in Management and Administration in Universidade Católica Portuguesa and an MBA from Harvard Business School, was Managing Partner of McKinsey & Company Portugal, focused on the financial services area. Mr. Lucas is the Managing Partner and co-founder of Oxy Capital.

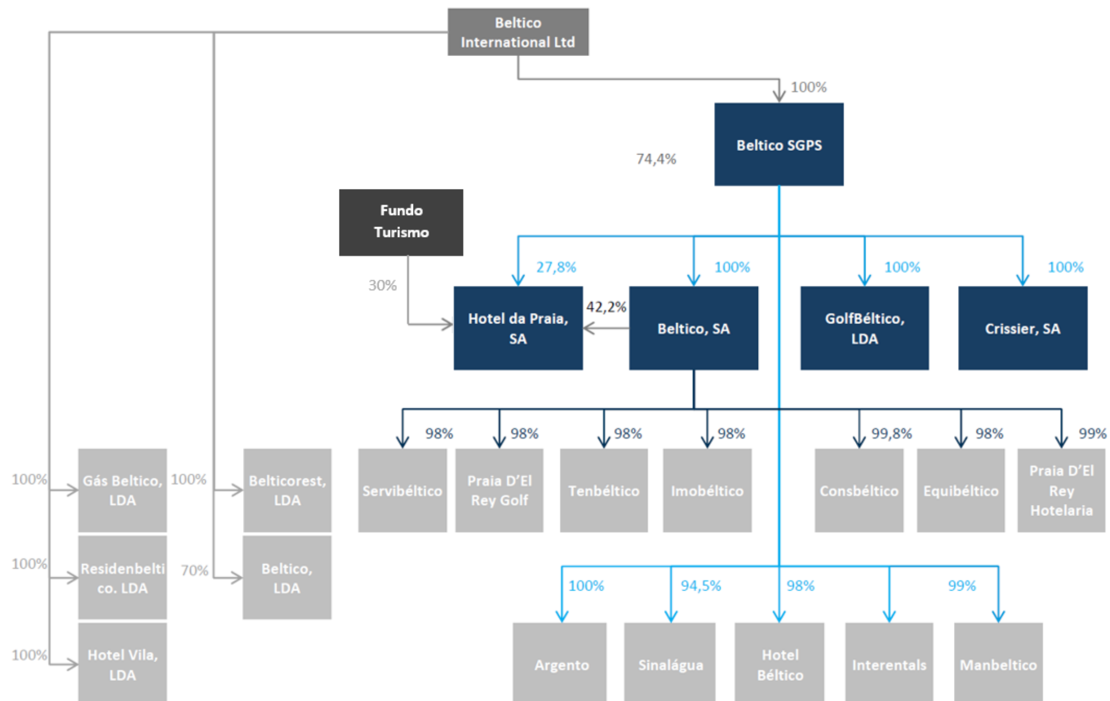
Daniel Viana – has a Management and Administration degree from Universidade Católica Portuguesa and an MBA from Harvard Business School. With professional experience in investment banking (BPI and UBS), was also Director of Explorer Investments, having launched the touristic fund "Discovery", until becoming Partner and co-founder of Oxy Capital. Mr. Viana was the Oxy Capital's Partner that led Béltico Group's operation.

Francisco Nogueira de Sousa – with an academic background in Hotel Management, more than 15 years of career in Starwood Hotels & Resorts, he is the founder and CEO of BlueShift, a hotel management and consulting firm, and member of the Marriott Business Council Portugal, in the institutional relations area. Mr. Nogueira de Sousa was the General Director of Hotel Praia D'El Rey Marriott Golf & Beach Resort from 27th June 2014 until 31st December 2017, having been distinguished as the "Best General Manager of the Marriott Group in Europe" in 2017.

Source: Oxy Capital and Blueshift

Exhibit 3

Béltico Group before the transaction



- GolfBéltico – Gestão e Exploração de Campos de Golfe, Lda. – managed the golf course and the football field;
- Bélticorest – Restauração e Catering, Lda. – managed all the F&B area of HdP and other two restaurants in the Resort;
- Servibéltico – Gestão de Serviços, Lda. – provided housekeeping services to the HdP and to the Resort;
- Residenbéltico – Gestão e Serviços, Lda. – managed the apartments of the Resort, including the housekeeping services;
- Béltico – Empreendimentos Turísticos, S.A. – centralized the administrative services and focused in the sale of the Resort's apartments;
- Interentals (Portugal) – Gestão e Serviços Turísticos e Imobiliários, Lda. – managed the Resort's residences (rental and sale);
- GasBéltico – Distribuição de Gás, Lda. – provided gas to the Resort and to HdP;
- Manbéltico – Serviços de Manutenção de Imóveis, Lda. – provided infrastructure and garden maintenance services to the Resort and HdP;
- Béltico – SGPS, S.A. – holding company.

Source: Oxy Capital

Exhibit 4

Acquired Debt

Creditor	Amount (€M)	Acquired Debt (€M)	Price (€M)	Discount (%)	Guarantees
Bank A	9.3	9.3	9.3	n.a.	Hotel mortgage
Bank B	1.4	-	-	n.a.	Hotel mortgage
Bank C	3.3	3.3	3.3	2.4%	Hotel mortgage
Total	**14.1**	**12.6**	**12.6**	**0.6%**	
Total Béltico Group	**120.0**	**116.4**	**113.0**	**2.9%**	

Source: Oxy Capital

Exhibit 5

Insolvency credits

Insolvency Credits (€M)	**17,8**	**100%**
Preferential Credits	**0,7**	**4%**
Employees	0,6	3%
Social Security	0,1	0%
Guaranteed Credits	**14,1**	**79%**
Aquarius Fund	12,5	71%
Bank A	0,0	0%
Bank B	1,5	8%
Common Credits	**1,9**	**11%**
Aquarius Fund	0,3	1%
Bank A	0,1	1%
National Treasury	0,3	2%
Other suppliers	1,2	7%
Subordinated Credits	**1,2**	**7%**
Aquarius Fund	0,0	0%
Others	1,2	7%

Source: Oxy Capital

Exhibit 6

Recovery Rates

Type	Total	Guarantees	Liquidation		Recovery Plan	
	(€M)		(€M)	(%)	(€M)	(%)
Employees	0.6	Privil. Cred.	0.6	100%	0.6	100%
Bank A	0.0	Mortgage	0.0	43%	0.0	100%
Bank B	1.5	Mortgage	0.7	45%	1.5	100%
Aquarius	12.5	Mortgage	5.3	43%	12.5	100%
Social Security	0.1	Privil. Cred.	0.1	100%	0.1	100%
Common Credits	1.9		0.0	2%	1.9	100%
Subordinated credits	1.2		-	0%	-	0%
Total	**17.8**		**6.7**	**38%**	**16.6**	**93%**

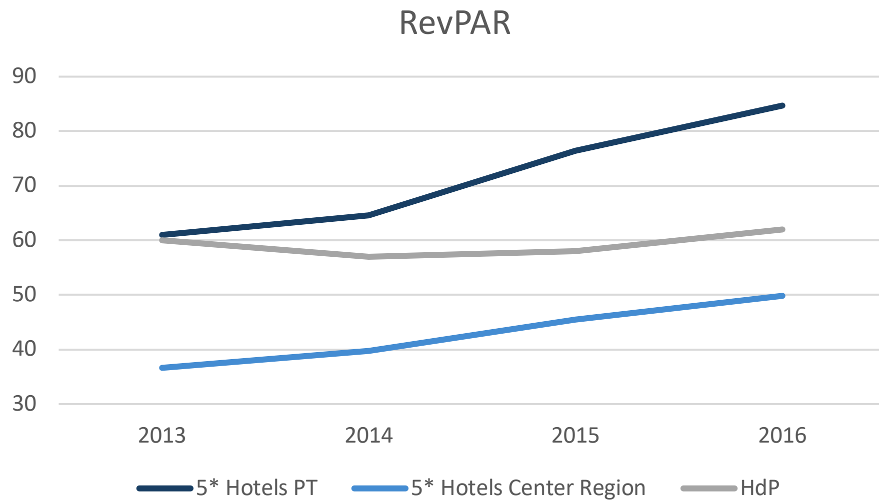
The recovery rate in a liquidation scenario was calculated following the seniority rules:

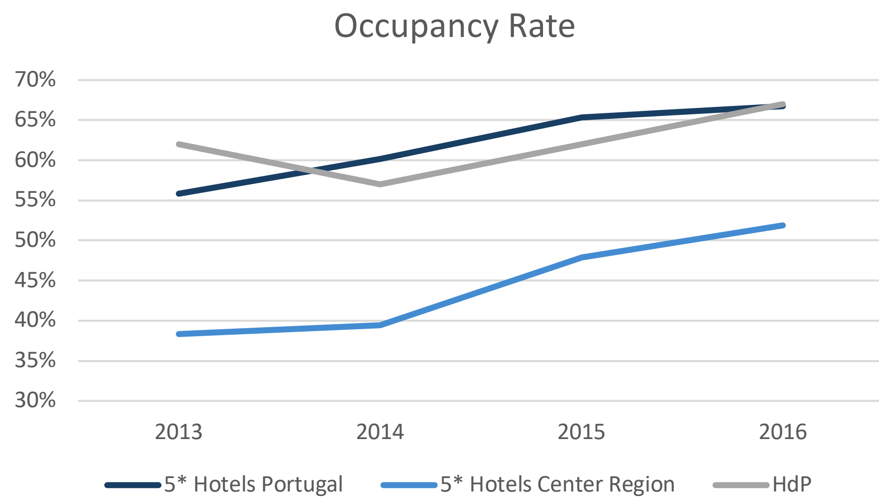
1) The product of the sale of the two real-estate assets (valued in 2015 by and independent entity in €6,4M) would be firstly used to pay the employees' privileged credits;
2) The remaining (€5,8M) would be used to pay part of the guaranteed credits (bank loans);
3) By article 98 of CIRE, Bank B would benefit from a special creditor privilege over €51,000, for being the insolvent claimant, which would be paid with the sale of the company's other assets (€0,3M according to the insolvency administrator's inventory, which was higher than the valuation given by the independent entity);
4) The remaining of the sale of the other assets would be used to pay the Social Security credits and, then, all the other common credits (and the remaining of the guaranteed credits not paid by the real-estate assets).

Source: Oxy Capital; CIRE (Código de Insolvência e Recuperação de Empresas)

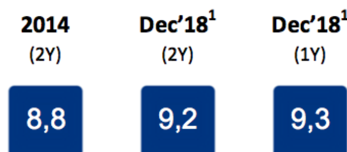
Exhibit 7

Value Creation





Booking Rating



[1]Reference date: 11/12/2018

Source: (Turismo de Portugal, 2018), *Oxy Capital*

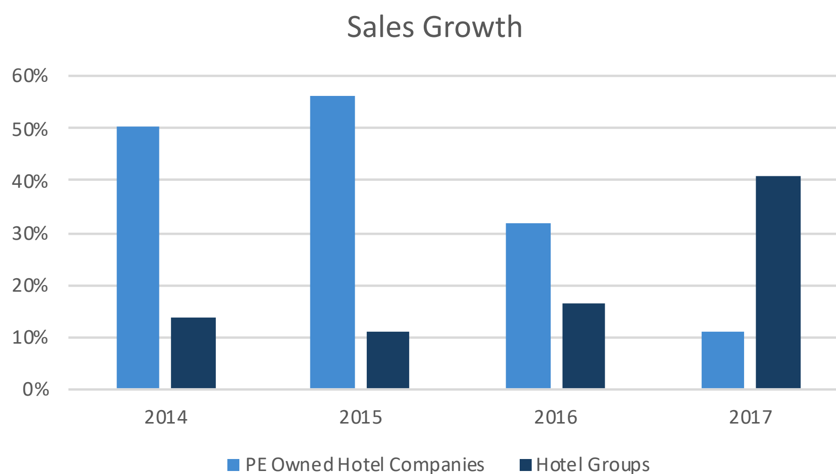
	2013	2014	2015	2016	2017	2018
Sales (€M)	**6.7**	**6.6**	**8.1**	**9.8**	**11.8**	**14.8**
△ (%)		-1%	23%	21%	20%	25%
EBITDA (€M)	**0.3**	**0.6**	**1.3**	**1.8**	**2.1**	**3.4**
△ (%)		100%	117%	38%	17%	62%
EBITDA Mg (%)	**4%**	**9%**	**16%**	**18%**	**18%**	**23%**
△ (%)		103%	77%	14%	-3%	29%

Note: The Sales and EBITDA take into account hotel's operations (rooms and F&B) and the apartments revenue and exclude non-recurrent gains and expenses (e.g. costs related to refurbishment works and reversals from previous years). The adjustments are meant to have numbers that reflect the real operational value generated by the company.

Source: Oxy Capital

Exhibit 8

PE vs. Hotel Groups



Note: in the years of 2013-17, the PE owned hotel companies' sales grew on average 37% and its CAGR was 36%; while the Hotel Groups owned companies' sales grew 21% on average and its CAGR was 20%.

Sample:

#	Hotels	Owner Type	Owner
1	Alpinus Hotel	PE	Explorer - Discovery
2	Resort Campo Real	PE	Explorer - Discovery
3	Monchique Resort & SPA	PE	Explorer - Discovery
4	Salgados Palace Hotel, Dunas Suites, Palm Village, Vidamar	PE	ECS - Fundo de Recuperação de Turismo
5	Hilton Vilamoura As Cascatas Golf Resort & SPA	PE	ECS - Fundo de Recuperação de Turismo
6	Morgado Golf & Country Club	PE	ECS - Fundo de Recuperação de Turismo
7	Hotel Palácio do Governador	PE	ECS - Fundo de Recuperação de Turismo
8	São Rafael Atlântico Hotel	PE	ECS - Fundo de Recuperação de Turismo
9	Tivoli Carvoeiro Algarve Resort	Hotel Group	Minor Hotels Group
10	Pine Cliffs Resort	Hotel Group	UIP - YOTEL
11	Pestana Vila Sol SPA & Golf Resort	Hotel Group	Grupo Pestana
12	SANA Silver Coast	Hotel Group	SANA Group
13	Epic SANA Algarve	Hotel Group	SANA Group
14	Dom Pedro (1 Lisboa, 1 Algarve and 2 Madeira)	Hotel Group	Dom Pedro Group
15	MH Peniche, Hotel MH Atlântico Golf, Dona Rita Park	Hotel Group	Private owners
16	Hotel Porto Bay Falésia	Hotel Group	Porto Bay Group

Source: (Turismo de Portugal, 2018), (Sabi - Bureau van Dijk, 2018)

Exhibit 9

Ranking of Hotel Companies in Portugal

by accommodation units (2017)

Ranking	Hotel Group/Management Company	Tourism Resorts		Accomodation Units		Beds	
		#	%	#	%	#	%
1	Pestana Hotels & Resorts / Pousadas de Portu	69	3%	7 888	6%	16 122	5%
2	Vila Galé Hotéis	21	1%	4 189	3%	8 698	3%
3	Accor Hotels	32	2%	3 360	2%	6 651	2%
4	Hoti Hotéis/ Meliá Hotels & Resorts	18	1%	2 655	2%	5 277	2%
5	Marriott Hotels & Resorts	12	1%	2 584	2%	5 804	2%
6	Minor Hotels	12	1%	2 411	2%	5 482	2%
7	SANA Hotels	14	1%	2 217	2%	4 371	1%
8	VIP Hotels	12	1%	2 066	1%	4 252	1%
9	InterContinental Hotels Group - IHG	10	1%	1 844	1%	3 820	1%
10	NAU Hotels & Resorts	10	1%	1 434	1%	3 451	1%
11	Dom Pedro Hotels	7	0%	1 399	1%	2 915	1%
12	HF Hóteis Fénix	9	0%	1 363	1%	2 640	1%
13	Continental Hotels	12	1%	1 334	1%	2 589	1%
14	DHM - Discovery Hotel Management	14	1%	1 310	1%	2 800	1%
15	Porto Bay Hotels & Resorts	9	0%	1 293	1%	2 557	1%
16	Turim Hotéis	14	1%	1 238	1%	3 142	1%
17	Hotéis Real	8	0%	1 231	1%	2 561	1%
18	MGM Muthu Hotels	6	0%	1 220	1%	2 848	1%
19	Luna Hotels and Resorts	14	1%	1 211	1%	2 695	1%
20	Bensaude Turismo	8	0%	1 063	1%	2 105	1%
	Sub-total	311	16%	43 310	30%	90 780	30%
	Other Groups	484	24%	47 686	33%	103 588	34%
	Independent	1 198	60%	52 093	36%	111 592	36%
	Total	1 993	100%	143 089	100%	305 960	100%

Source: (Deloitte, 2018)

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