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INTERNATIONALIZATION FIELD LAB

THE INTERNATIONALIZATION OF VILA GALÉ TO THE SOUTH OF BRAZIL

Guilherme Paiva Lapas de Gusmão, 1380

A Project carried out on the Management course, under the supervision of:

Professor Sonia Dahab

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ABSTRACT

“THE INTERNATIONALIZATION OF VILA GALÉ TO THE SOUTH OF BRAZIL”

This working project will consist in the study of an internationalization plan of Vila Galé to the South of Brazil, focusing on a new model for the company: the Vila Galé Express. A company profile is traced, as well its goals and strategies. Aligning a complete definition of the Express type hotel with several internal and external analysis aiming the South of Brazil, it was possible to elaborate an entry strategy and assess its financial viability, concluding that an Investment in the South needs to be cautious while, at the same time, fast and efficient or it won't be sustainable.

Key Words: *South of Brazil, Portuguese Hotels, Express Hotels*

TABLE OF CONTENTS

TABLE OF ABBREVIATIONS	I
TABLE OF FIGURES	II
VILA GALÉ	1
The Group	1
The Strategy	3
VILA GALÉ EXPRESS	3
Benchmarking	4
SOUTH OF BRAZIL	5
Macro Analysis	6
Political	6
Economical	6
Social	7
Technological	7
Environmental	7
Legal	8
City Selection	8
Tourist Afflux	9
Investors Perspective	10
SWOT	10
TOWS	12
Hotel Concentration Analysis	13
Curitiba	13
Porto Alegre	14
Florianopolis	14
International Analysis Conclusion	15
INTERNATIONALIZATION	16
Entry Mode	16
Financial Analysis	17
Implementation	20
Marketing Mix	20
Implementation Phases	23
FINAL CONCLUSION AND RECOMMENDATIONS	25
REFERENCIAS	26
APPENDICES	29
ENDNOTES	53

TABLE OF ABBREVIATIONS

ADR	Average Daily Rate
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
Cofins	Contribuição para o Financiamento da Seguridade Social
CSLL	Contribuição Social sobre o Lucro Líquido
F&B	Food & Beverages
FDI	Foreign Direct Investment
HDI	Human Development Index
HI	Holiday Inn
HIE	Holiday Inn Express
IHG	InterContinental Hotel Group
IPTU	Imposto sobre a Propriedade predial e Territorial Urbana
IRPJ	Imposto de Renda Pessoa Jurídica
ISS	Imposto Sobre Serviços (de Qualquer Natureza)
ITBI	Imposto sobre a Transmissão de Bens Imóveis
OR	Occupancy Rate
PASEP	Programa de Formação do Patrimônio do Servidor Público
PI	Profitability Index
PIS	Programa de Integração Social
VG	Vila Galé
VGE	Vila Galé Express

TABLE OF FIGURES

Table 1 – Average Annual Growth of Brazil, the Southern Region and its States	6
Table 2 – South of Brazil Airport Traffic	9
Table 3 – Airports’ Capacity and Prospects made in 2009	10
Table 4 – SWOT Analysis for an Internationalization to the South of Brazil	10
Figure 1 – Implementation Chart (simplified)	23

VILA GALÉ

The Group

Vila Galé is a Portuguese hotel chain created in 1986 by three families. Initially, the objective was simply to open one hotel in Praia da Galé, Algarve. However, this first project was so successful that the group growth started right away. As so, until 1995, through the acquisition of lands, existent hotels and buildings under construction, VG expanded its portfolio through the Portuguese southern region. In 1996 the second stage began, with the goal of getting totally national, evolving first to the Lisbon area and then Oporto and Coimbra's. Nowadays, with hotels also in Madeira and Alentejo, the group believes it covers already the main touristic areas in Portugal. Therefore, VG was able to create a quite strong presence in Portugal in these 27 years that past since its creation, being now placed in second in the ranking of largest groups operating in the country, with 3808 rooms/apartments in 2012¹. Although is still relatively distant from the third place (*Accor Hotels* with 2890 rooms), the leader of this table is far beyond VG numbers: *Pestana Hotels&Resorts/Pestana Pousadas* had 6483 rooms/apartments in 2012. However, VG rooms are dispersed through much less properties than the leading competitor. Plus, the group started operating 14 years after Pestana, which might tell us that, following the current expansion rhythm, and considering that the leader hasn't got much more to evolve in the country, it could reach the national top in few years.

This strong presence and growth in the country encouraged VG to go abroad. The destiny chosen for the first internationalization was the northeast of Brazil, since it was spotted a lack of Resorts in this country and the region was a quite good place for this kind of hotels. It is possible to say that the internationalization strategy was through a *Greenfield* strategy, besides the fact that the second hotel (opened 2 years after the first one) was

developed on the lights of a *Management Contract* strategy. Some years after, VG ended up buying this second Resort, but nowadays two out of 24 hotels in the portfolio are still under this kind of management since 2009 in Brazil. Its presence in this country relies mostly in the Northeast region, with only one in the Southeast and another one coming up at this same region. (See **Exhibit 1** for Company Portfolio.)

The group is considerably centralized, being the following departments, besides *Administration*, shared by all the hotels in the portfolio: *Marketing and Sales*; *Human Resources*; *Administrative and Financial*; *Legal*; *Technical*, and; *IT*. There's also an *Operational* department coordinating each hotel work and so each propriety has solely a purely operational structure. (See **Exhibit 2** for Organizational Chart.)

VG has been quite successful among its customers, such in Portugal as in Brazil. Observing clients' reviews at *booking.com*, the most valued feature in Brazil was *Comfort*, followed right away by *Location*. In Portugal, the most valued one was *Location*, followed closely by *Staff* and *Clean*. Is possible to consider that, so far, what VG is able to provide better is then the hotel location (which is reasonable since the group is so careful in its acquisitions). However, both in Portugal and Brazil, the worse quality of VG hotels was *Value for Money* scoring 7.5 in Portugal and 6.9 in Brazil which indicates that the hotels might be moderately overpriced, or at least are not perceived as really opportunities (see **Exhibit 3** for complete *booking.com* Scorecard). Also, looking at the internal reviews, the low *Value for Money* stated by *booking.com* can be seen in the overall low values in the column *Voltaria?*¹, despite almost every quality before analysed by the surveys had had quite high scores. (See **Exhibit 4** for complete Internal Survey.)

¹ "Would you come back?" in a literal translation

The Strategy

VG mission is defined by one simple sentence “*Sempre perto de si*”² and its culture is aligned with eight values: *Appreciation, Innovation, Loyalty, Ambition, Assurance, Accessibility, Freedom* and *Efficiency* (literal translation). These pillars were defined properly by the managers when VG was already 15 years old but it was based on the management practices until then and it is how the group is still administrated.

For the future, VG not only wants to find new international destinations but also desires to expand its Brazilian portfolio further south, either in number of properties as also in type of hotels. This strategy is sought in order to balance the characteristic Resorts’ seasonality. In Portugal, a seasonal balance was achieved through the investment in City/Leisure hotels. The Brazilian strategy would be similar, with already one city hotel functioning and another one under construction. However, to boost this South American expansion, VG wanted to apply a new project already thought but never used – the *Vila Galé Express*.

VILA GALÉ EXPRESS

To define properly VGE it’s important to settle first the concept of the *Express* hotels. This model can be seen as the fusion of the two more common types of accommodation: the *Bed&Breakfast* and the *Budget*. The first one embraces normally small family hotels, from 4 to 11 rooms, quite typical in the USⁱⁱ. The second holds for regular hotels, relatively large, with less amenities than the competitors in order to practice lower prices. As so, *Express* hotels might be identified as relatively large hotels (around 120 rooms) offering basically only good accommodation and breakfast as the *B&B* type, but keeping a relatively low price through the elimination of common amenities usually used by other

² “Always close to you” in a literal translation

hotels (e.g. gym, pool or restaurant). This type targets people who came in town just for business and consequently have no time nor interest in using the several additional amenities besides a good night sleep, internet and breakfast like other business hotels offer.

The two brands leading this sub-market are: *Holiday Inn Express* (from the *InterContinental Hotels Group*) and *Ibis* (from the *Accor Group*). These are the ideal brands to be benchmarked.

Benchmarking

Assessing the *best-in-class* would help not only to understand how to operate in the market, as it would also allow VG to spot faults, and consequently, opportunities for the company, in those models. Currently, the two *best-in-class*, *HIE* and *Ibis*, dominate completely the *Express* sub-market. Their practices and amenities are relatively similar and are the ones that most characterize this hotel business sector. Both offer “excellent” large beds, free breakfast and *Wi-Fi* in all rooms. Discrepancies are scarce, limited to a competition based on the principle of “who serves better the amenity that both offer”, leading *HIE* to offer allegedly better *Wi-Fi* connection, while *Ibis* optioned for a larger schedule for breakfasts. It is also quite important to point the two key success factors for this type of hotel: *location* and *price*. The location of every *HIE* is carefully oriented to the business customers, leading to locations like near the airports or business centres. *Ibis*, even though less than *HIE*, is also oriented to business customers, providing then hotels close to business centres. Prices are the main advantage for these hotels being chosen over other Business hotels. By offering less amenities, like gym or pool, *Express* hotels are able to lower their prices relatively to other Business/City hotels in good locations, targeting people who have no interest into these additional services.

It should also be taken into consideration some hotel indicators from these two brands, like the *Occupancy Rate*, *Average Daily Rate* and the *RevPAR*. Regarding *HIE*, the brand presented in the first half of 2013 an overall *OR* of 57.25%. The *ADR* for the total 2045 hotels was US\$101.69 in the same semester and the *RevPAR* US\$67.22ⁱⁱⁱ. Concerning the economy range of *Accor*, from which make part the three *Ibis* brands, it is possible to verify a higher than *HIE OR*, 67.7%, but a lower *ADR* and *RevPAR*, US\$72.8 and US\$49.4.^{3,iv}

VG has already some plans regarding this project. As Gonçalo Rebelo de Almeida, VG's administrator, said "We are talking about hotels in cities, between 80 and 120 rooms, with the size of the bedroom with bathroom around 22m² [...] As additional services there will only be one coffee shop for breakfasts and snacks. The rooms would have their normal equipment: it is vital to have a good LCD screen, good internet access, basic features of the Express model." The brand itself is also already thought: it will be a sub-brand, so "*Vila Galé Express*", with a logo in white and a green.

SOUTH OF BRAZIL

Brazil is a federative republic composed by 26 States and one Federal District. These States are grouped, even though only for geographical purposes, into five regions: North, Northeast, Central-West, Southeast and South. The Southern region of Brazil is composed by three states only – (from north to south) Paraná, Santa Catarina and Rio Grande do Sul. Their capitals are, respectively: Curitiba, Florianopolis and Porto Alegre.

³ Values provided by Accor in € but converted to US\$ at a rate of 1.3\$/€

Macro analysis

Each region of Brazil is different and so a careful and focused analysis on the Southern region is necessary. To the effect, a *PESTEL* analysis was performed in order to understand the three states situation.

Political

Brazil has, in general, some political stability, having this one only being "reconsidered" by the population in a more severe way in 2013 through some significant protests. This discontentment came most likely from the country's economic growth slowdown, which result in several social issues (like unemployment). Another cause pointed was the expenditures with the future world events and the corruption involved in this question. As so, people demanded more transparency in order to fight the corruption. Nevertheless, considering the world's recovery from the global crisis, it is expected that Brazil will be able to restart its strong growth and so diminishing the dissents.

Economical

The South and South-Eastern region of Brazil are considerably more developed than any other regions in the country. This might be due to the concentration of the population in the area (see **Exhibit 5**, Figure 1). Two of the Southern States grew at a faster pace than the country's annual GDP growth from '95 to '07, being Rio Grande do Sul the only one who couldn't achieve such growth.

Table 1 – Average Annual Growth of Brazil, the Southern Region and its States

	Average Annual Growth in % from 95' to 07'
Brazil	2.967
South of Brazil	3.370
Paraná	3.528
Rio Grande Do Sul	2.438
Santa Catarina	4.146

These States grew, in general, at a slower pace than most of the other states (see **Exhibit 6** for complete table) but this should be translated as the catch up of the remaining ones

and not a bad performance from the Southern region (see **Exhibit 5**, Figure 2). Also, the country's economy is still quite based on the commodity sector while the Southern regions are already facing quite more the services sector. Nevertheless is in the South that still relies most of the country's wealth (see **Exhibit 5**, Figure 3).

Social

The social development that took place in the last 20 years in Brazil was tremendous. The country passed from an overall poor *HDI* to a general quite good index, almost reaching the level of the developed economies' *HDI*. In fact, the South and Southeast region are the ones that evolved the most, being a great part of the municipalities above the country's average and 43 out of the 44 municipalities which are considered highly developed ($HDI > 0.8$) are in the South and Southeast region^v. This translates that these regions have, on average, a quite good life expectancy, a low level of illiteracy and an elevated GDP per capita.

Technological

Brazil is considered the most developed country of Latin America in several technological areas. However, the most relevant for the case is definitely the communication sector. Brazil is quite developed in this particular matter in the Centre, South and Southeast regions, supporting all the modern network means, contrasting with the other regions. Is also the 5th country with more internet users in the world^{vi}.

Environmental

Concerning this issue, it is possible to say that Brazil is, at some level, an eco-friendly country. Its carbon emissions are quite low, especially when compared with other emerging economies (see **Exhibit 5**, Figure 4), and even the ones emitted are quite “consumed” by the vast territory still covered by forest (see **Exhibit 5**, Figure 5). Plus, the energy consumption in Brazil relies a lot on oil and hydroelectric power (47% and

35% respectively) and it's the 2nd country which more biodiesel produces and uses^{vii}. Considering all this data, it is possible to conclude that this country is, at least for the following years, relatively environmental sustainable. The weather in the three states of the South is *humid subtropical*, which means that the temperature in the summer is usually high and in the winter mild. The precipitation observed stays at a stable level all year, yet not much accentuated.^{viii}

Legal

The bureaucracy in Brazil is quite high and is considered one of the biggest barriers to the investment in the country, since it increases the corruption and makes the business activity slow and more costful. The taxes are also a concern for most investors since are usually quite high and complex.

There are several laws to be taken into account, namely the ones involved in the process of opening an hotel (see **Exhibit 8** for the relevant laws applicable to the hotel industry). Although these laws are one of the main bureaucratic problems that some investors point, VG should not have much trouble dealing with these since they are basically the same that the company had to pass through while creating the other hotels in the country. About the taxes, there are two types that apply to the hotel business: the federal and the municipal (there are no statual taxes to apply to the hotel business directly). VG knows already all of them since they are the same all over the contry. The only different relies on the percentages taken by the municipes (the *ISS*, the *ITBI* and the *IPTU*) which might be different from the ones practiced where VG has already hotels.

City Selection

Considering the Macro analysis of the country with some specific focus in the Southern region and taking into consideration the characteristics of the *Express* hotel model, is

pertinent to define before any further analysis, which should be considered *good* cities in the region for the internationalization. Good indicators that should be considered are the city's afflux of people and the investors' opinion about those. These two analysis give us the reality and the prospects of the businesses development in the area.

Tourist Afflux

Based on the airport data provided by *Infraero*, the cities of Porto Alegre, Curitiba and Florianopolis had the 9th, the 10th and the 14th busiest airports in 2012, even though quite focused in domestic flights. Observing the table below (see **Exhibit 9**, Table 1 for a more detailed ranking), is possible to state that Porto Alegre and Curitiba had considerably more movement than Florianopolis, even though the last got more than 3.4 Million people. Another important factor to state is the substantial percentage of passengers that arrived from domestic flights (all of the three Southern airports got more than 90%), which probably indicates a large afflux of Brazilian people to this places.

Table 2 – South of Brazil Airport Traffic in 2012 (Source: Infraero)

Pos.	Acronym	City	Domestic	International	Total	Domestic %	International %
1	SBGR	São Paulo	21,234,352	11,542,978	32,777,330	64.78%	35.22%
9	SBPA	Porto Alegre	7,606,507	654,848	8,261,355	92.07%	7.93%
10	SBCT	Curitiba	6,738,071	90,263	6,828,334	98.68%	1.32%
14	SBFL	Florianopolis	3,178,877	216,379	3,395,256	93.63%	6.37%

Accordingly to *Infraero*, the three airports are currently operating under capacity (63%, 87% and 83% respectively)^{ix}. However, based on a report made by McKinsey and the BNDES in 2009, (see below **Table 3** and **Exhibit 9**, Chart 1 for the airports' evolution and forecasts), is possible to verify that the three *Base* prospects for 2014 were already surpassed in 2012. In fact, in Porto Alegre and Florianopolis, even the *Optimistic* forecasts for 2014 were surpassed already in 2012 and Curitiba was quite close to this value.

Table 3 – Airports’ Capacity and Prospects made in 2009 (Sources: Infraero and BNDES)

	Passengers in 2012	Capacity	Capacity Usage	Prospects made in 2009				
				2014 Pess.	2014 Base	2014 Opt.	2020	2030
Porto Alegre	8,261,355	13,100,000	63%	6,300,000	7,200,000	8,100,000	9,700,000	15,800,000
Curitiba	6,828,334	7,800,000	88%	5,400,000	6,200,000	7,000,000	8,400,000	13,800,000
Florianopolis	3,395,256	4,177,800	81%	2,200,000	2,500,000	2,900,000	3,400,000	5,600,000

Investors Perspective

In a study conducted by *EY* in order to sound the investment in Brazil and to draw forecasts about it, Curitiba and Porto Alegre appeared in 3rd and 5th place at the list of Brazilian cities with more FDI in the last years, only surpassed by São Paulo, Rio de Janeiro (1st and 2nd) and Campinas (4th). Also in the same document, Curitiba was elected by several queried investors the most promising city of Brazil while Porto Alegre and Florianopolis stayed with the 4th and 10th place. (See **Exhibit 10** for both rankings.)

Taking into account all this, is reasonable to conduct the succeeding analysis bearing in mind an internationalization for one or more of these three Southern capitals, since they are the most promising cities in the region.

SWOT

A *SWOT* analysis was assembled in order to retrieve a better perspective of the *Pros* and *Cons* of this expansion.

Table 4 – *SWOT* Analysis for an Internationalization to the South of Brazil

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Knowledge of the Brazilian market, due to its 12 years of experience operating there; 	<ul style="list-style-type: none"> Really patient and careful might slows down the process too much⁴;

⁴ E.g. *Vila Galé Rio de Janeiro* took about 10 years to start being built and if started earlier could probably profit more from the exponential growth in tourism seen in the last years in this hub.

<ul style="list-style-type: none"> • An internationalization success history; • Really patient and careful, always to minimize the entry risks. VG has its own personnel looking for exactly what is considered an opportunity for the company in predefined areas of the globe; • Defined culture; • Strong brand in Brazil. 	<ul style="list-style-type: none"> • No experience in the type of <i>Express</i> hotels; • No partnerships in Brazil, even though VG says that hadn't needed them so far; • No experience in the Southern states.
<p>OPPORTUNITIES</p>	<p>THREATS</p>
<ul style="list-style-type: none"> • No <i>HIE</i> in the three cities of the South; • Strong development from the Southern cities, boosted by the economy of the neighbourhood cities of the Southeast (S. Paulo, Rio de Janeiro, Campinas...) (see Exhibit 6 and 9); • Strong prospects on the eyes of the investors (see Exhibit 10); • The upcoming international events might boost the three Southern cities⁵; • Good location of the Southern States concerning Mercosur. 	<ul style="list-style-type: none"> • Already some <i>Ibis</i> hotels in each city: Curitiba has 4 (one close to the airport); Porto Alegre has 2 (also with one in the airport area) and Florianopolis has 1; • The current Brazilian economic slowdown might affect these cities growth on the eyes of the investors, even though that this impact can't be too strong; • The issues that already averse the investors, such as the high corporate taxes, corruption or the security, might

⁵ Curitiba and Porto Alegre will have each one a stadium for the FIFA World Cup, and are quite closer to Rio de Janeiro than the northern cities concerning the Olympics of 2016

	<p>get worse due to the recent economic slowdown, diminishing investments in the country.</p>
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TOWS

The *TOWS* analysis is a complementary analysis derived from the *SWOT* analysis. Once knowing what do the company has in its favour and against, is important to realize what is possible to do in order to take advantage of the firm's strengths relatively to the environment, while using these exterior pressures to diminish the weaknesses.

The strong brand in the country and the knowledge of the Brazilian market are capabilities that should be used by VG both to rise entry barriers for future entrants (namely *HIE*) and to decrease the opening time. Regarding the entry, the group should not be too strict in what it considers an opportunity, since, due to the increasing development and good prospects in the three cities, it will certainly appear several good real estate opportunities, the cities will be thriving and VG should avoid to "regret" to open too late. Also, it is important to take advantage of the current absence of *HIE*, which releases some pressure of VG to be excellent right in the beginning and would allow the brand to benchmark purely the *HIE* methods. Furthermore, it is important to expand fast and to take a position before *Ibis* reinforces its strategies. Nevertheless, VG should remain especially careful in the location of its hotel in order to be a serious competitor to *Ibis*.

The proximity of the other *Mercosur* countries gives the opportunity to study their markets and their clients, which goes along with VG careful growth strategy since it provides a chance of a deeper analysis of potential expansions to those territories. To open a different type of hotels and being in the South, would allow VG to fight better an eventual Brazilian economic downturn (and even the seasonality experienced by the

Resorts in the Northeast). Plus, with its well-known brand and knowledge of the market, in the eventuality of a decrease in tourism numbers, VG would be able to relatively sustain its numbers. (See **Exhibit 11** for detailed and schematic TOWS analysis)

Hotel Concentration Analysis

For the Hotel Concentration Analysis of each city, it was used the website “*hoteis.com*”, which is the most suitable hotel search engine for the purpose due to the available filters. As so, it was possible to locate in the map most of the hotels existent in each city, for any time (it is possible to eliminate the “date” factor from the search) and then filtering in order to obtain only business hotels. This analysis is relevant in the way that shows how other hotels are dispersed (and how they are focused in a particular area) and discloses the amount of potential competitors active in the hub.

Curitiba

In the capital of Paraná were identified 16 business hotels out of the total universe of 60 pointed by the website. These 16 are dispersed in three areas: the city downtown, with 11; the *Batel* neighbourhood, with 4; and, finally, *Champagnat* with only one. Also, looking in the *Ibis* and *HI* websites (these two brands are not included in the search engine), it was possible to verify that the first one has 3 hotels in the city centre and 1 near the airport, while the second one has no hotels in the city. Therefore, 19 hotels can be pointed as probable competitors of a *VGE* in Curitiba.

The best location for a business hotel should be near the business centres and is possible to state through this analysis that Curitiba’s financial area is located in the downtown and in the wealthy neighbourhood of *Batel*. In fact is not difficult to observe that the square kilometre with more business hotels in Curitiba is located between the centres of the two areas, comprising roughly 11 hotels. *Batel* is also known for being the zone where the

square meter price is higher, which probably justifies the lack of hotels in the area when comparing with the downtown. (See **Exhibit 12**, Figure 1 for the city's map.)

Porto Alegre

This Southern city has a relatively more dispersed disposition of business hotels than Curitiba. The search engine was able to identify 12 hotels of this kind in the city, showing two predominant areas: the city centre and *Moinhos de Vento*, comprising 7 hotels. *Ibis* has also hotels in this city, presenting one in *Moinhos de Vento* and another near the airport. There are two other hotels under the brand *Ibis* in the two satellite cities of *Canoas* and *Novo Hamburgo*, but both are relatively distant from the city centre. On the other hand, *HI* has no *Express* hotels in the city.

Through this analysis is possible to state that, even being some business hotels in what is considered the city centre, they are all quite close of the *Moinhos de Vento* area, which is where the biggest concentration of business hotels is. (See **Exhibit 12**, Figure 2 for the city's map)

Florianopolis

The capital of Santa Catarina has a quite large hotel industry. However, the number of business hotels is not so promising. A total of 7 of this kind were pointed by the search engine and *Ibis* has two hotels in the area, being one of them in the city centre and the other one in the satellite city (but still relatively close from the centre of Florianopolis) of *São José*. It is possible to state through this analysis that the biggest concentration of business hotels, including one *Ibis*, is in Florianopolis' downtown, having the total of 4 hotels considered business hotels. (See **Exhibit 12**, Figure 3 for the city's map)

International Analysis Conclusion

Taking into account the information disposable on the section “City Selection”, it is possible to conclude that there is a greater afflux of people to Curitiba and Porto Alegre than to Florianopolis, even though this gap is decreasing. Nevertheless, regarding the other source provided in that section, the *EY* report, there’s a clear preference and stronger prospects from the investors on the capitals of Paraná and Rio Grande do Sul than on the Santa Catarina’s. Additionally, is possible to conclude, also through the analysis of the hotel concentration, that Curitiba and Porto Alegre are considerably more directed to business tourism than Florianopolis, which provides so few business type hotels. This location is far more directed to other type of tourism and so I believe an entrance in a close future at this location could be considered using a *City/Leisure Hotel* or even a *Resort* in the area, but not an *Express*.

Also, considering only Curitiba and Porto Alegre and running the same analytical process as above, it is possible to observe a greater business development and prospects in the first city. This is probably due to its proximity to São Paulo and Rio de Janeiro. Nevertheless, Porto Alegre also shows reasonably good values on these analysed issues.

As so, I believe that, so far, the best International strategy for VG would be to focus mostly on Curitiba and Porto Alegre, concerning *Express* hotels in the South of Brazil. One might say that Curitiba has already a developed competition regarding this market comparing to Porto Alegre, but facing the growth forecasts and the high investment prospects for the Paraná capital, I believe that the current lodging available of this type will not be enough in a near future. In the end, my opinion is that Florianopolis should only be considered for this type of hotel in a more advanced stage, i.e. after a successful expansion to the other two capitals and after a reassessment of this town at the time.

INTERNATIONALIZATION

Entry Mode

VG has a relatively strict way of expansion. The group prefers to rely on *Greenfields* through the purchase of terrains and buildings or on *Acquisitions* of existent hotels. In the end, the company likes to rule completely the propriety on its own. This should be considered the most likely entry mode in the South – to find a land/building/hotel in the predefined areas established before in this document and take over it alone. The advantages of these two strategies are the full control over the hotel, the possibility to decide what to do with the propriety at any time and the option to impose freely the culture wanted. On the other hand, these are probably the international strategies which more resources (namely capital) and time consumes, even though *Greenfield* weights more on the time while the *Acquisition* process is more capital intensive. Also, for a non-experienced company in the destiny market, to acknowledge all the laws and procedures necessities in the country might be another delay provoked by these strategies. However, VG wouldn't be so affected by this last condition, considering that it is already present in Brazil and has experience dealing with this.

Another option would be an internationalization through *Management Contracts*. This strategy is not so well perceived by the group and has risen some issues before. Even though it would be cheaper, safer and faster, VG's profits would probably be much lower, the control over the propriety would be limited and the sub-brand could be questioned. An even bigger issue would be to find a hotel in such a prosperous cities like Curitiba or Porto Alegre willing to accept such contract right away. VG could acquire a land/propriety, turn it into the desired hotel, sell it to an investor and then settle a *MC*, but

this way it would still be capital intensive in the short term and not faster than a *Greenfield* or *Acquisition*. As so, I don't believe this would be a good option for this expansion.

A third strategy would be a *Joint Venture* with a Brazilian hotel chain with a strong connections in the South. This would reduce the capital required and could turn the process faster. However, in the end, VG would only have a share of the brand control and its management, which could lead to disagreements in the long run. Plus, the company, through its history, has never shown interest into share the control over its hotels, even though it has currently two proprieties of the portfolio under *MC*.

Other entry strategies aren't any better: for *Franchising* and *Licensing*, VGE needed to be an already well-known and successful brand, and *Exporting* doesn't apply to this type of market.

As so, I believe, considering all this, that VG should option then for its usual expansion strategy, also where it has more experience, and acquire a land/building/hotel in the desirable area.

Financial Analysis

In order to verify the project's profitability, it is necessary to make some financial analysis, discounting FCF based on some assumptions. This analysis tries to be as precise as possible, although it may present, when implementing, some forecasting errors. To minimize it, the assumptions used tried to be meaningful and a considerable amount of scenarios with several variables were computed. The project was composed based on variable sources, being the two major ones an interview with Gonçalo Rebelo de Almeida and a spreadsheet model used by VG ceded by him. Also, the project was estimated for

30 years, instead of for infinite periods, since even in this horizon the forecasts are already quite uncertain and more years could prejudice even more the analysis.

Even though the benchmark model created for the FCF calculation is the Appendices, some points are necessary to clarify. Regarding employees, the average amount of personnel working in a VG hotel with 200 bedrooms that is assumed is 69 people.⁶ Since this number applies to larger and with more amenities hotels than the *Express*, it is not reasonable to calculate the employees necessary for a VGE using a merely proportion. As so, when considering the *Lodging* area (where in the model 32 out of the 69 employees work) on a 120 bedrooms hotel (benchmark size of a VGE), it should rely proportionally on 19 or 20 employees. However, due to the considerable less amenities, for this area it was presumed 10 employees. The *F&B* area has in the model 30 employees working (which indicates a proportional number of 18 for a 120 bedrooms' hotel), but for an *Express* hotel, where only Breakfasts and some snacks are served, only 8 employees were considered for the purpose. Relatively to the *Administration* and *Maintenance*, where in the initial model are 4 and 3 employees working, the numbers assumed for the VGE were merely the proportional numbers for a 120 rooms' hotel, which are 3 and 2. The salaries are based on the disclosed information provided in the model spreadsheet ceded, except the ones in *F&B*, where, since they don't need to be so specialized, their cost should be lower.⁷

The VGE's revenues come from two activities: the first are the *Lodging* services, which come from room price per night, and the second one come from *F&B* services, namely the purchase of snacks (breakfasts are not considered since they are included in the room

⁶ Information on the Model Spreadsheet disclosed by Gonalo Rebelo de Almeida

⁷ The number of employees weren't altered any other time in any of the scenarios.

price). Regarding the costs, the percentages used for accounts like “Other Costs” or others more specific (e.g. Energy) were provided by VG and not changed.

The investment was computed based on the average investment made by VG in its hotels. Having the Total Investment per room, and separating the amount that is spent in rooms’ equipment and furniture, it was possible to calculate the Investment per square meter without rooms’ equipment and furniture. Assuming a new reduced value for the rooms’ equipment (VG’s normal rooms have kitchenettes, furniture and decorations that wouldn’t be necessary in an *Express* hotel) and adding it to the Investment per square meter previously computed it was possible to assemble a Total Investment value per square meter, and so the Investment value per room, and consequently the Total Investment to be applied to the VGE. The percentages of the Total Investment applied to separate the land, building and equipment costs, as also their expected lifetime (and consequently their depreciation) were provided by VG. Also, the group is not “taking out” the money generated currently in Brazil and so, to invest this money overflow could be a good solution. In the end, a loan will not be considered since the group has enough money relatively stopped in the country that could be used for the necessary investment.

For Curitiba, considering the expected *OR* for *Economy Scale* hotels of 72%^x and assuming a 30 years project, as well a cost of equity of 10%⁸, it is observed a negative *NPV* with a *Profitability Index* of 0.83. These two factors give a red light to the investment as it is in the Benchmark form, even though almost every year the hotel makes practically €1M and, if the *FCF* are not actualized, the investment is recovered between the 10th and the 11th year, respecting the company’s requirements⁹ for a project.

⁸ Value provided by VG

⁹ Expected investment recovery between 12 and 15 years

Some scenarios were developed in order to verify how a VGE in Curitiba could be profitable. It was concluded that the *NPV* was positive if the Investment per square meter without the rooms' equipment and furniture decreased from the benchmarked value of €3,200 to €2,300 or, more realistic, when this value per square meter decreased to €2,600 while the amount of rooms increased to 160 instead of 120, *ceteris paribus*. Also, when solely increasing the price per room (tested until €70 per night) or increasing the *OR* (tested until 80%) the *NPV* would still be negative. Even when considering both moving at the same time with a negative correlation (the only one that makes economic sense), a positive indicator wasn't achieved. In opposition to this Curitiba's scenarios, Porto Alegre has higher *OR* prospects and the competitors (namely *Ibis*) practice higher prices, leading to a benchmark with a positive *NPV*, even though with a low *PI* of 1.037. The best option for this city is the same as in Curitiba, to decrease the investment without equipment and furniture to €2,600 and increasing the room number to 160, *ceteris paribus*, returning this way a *PI* of 1.28. (See **Exhibit 13** for the *OR* prospects used for both cities and **Exhibit 14** for more detailed financial information.)

Implementation

Marketing Mix

For the implementation process, it should be considered the 4P's that compose the *MM*, accordingly to McCarthy's formulation: *Product*, *Place*, *Promotion* and *Price*. The first two points were already pointed out before in this document, being the *Product* an *Express* type hotel with the characteristics said previously¹⁰ and the *Place* in Curitiba between the city's downtown and the *Batel* neighbourhood¹¹ and in Porto Alegre

¹⁰ See "Vila Galé Express" section

¹¹ see Hotel Concentration Analysis and International Analysis Conclusion sections

somewhere relatively close to *Moinhos de Vento*. However, the other two points of the *MM* are not yet quite defined.

Regarding *Promotion*, VGE advertising strategy can be based only on three marketing campaigns. The first one, quite simple and low cost, is to advertise the new hotels on the group website, as well as in the social networks which VG is in. Three months before the opening should be enough to create some awareness and come up with some reservations. Equally important is to certify that the new hotel is added to hotels' search engine, like *booking.com*. Most people rely on these kind of websites not only to make a reservation but to read other people's comments about the hotel. VG says that reservations on its portfolio are usually made through three channels¹²: directly (telephone or email), online (including company website) or through touristic agencies/operators. Concerning VGE, the firm shouldn't expect reservations using the last channel, and can expect a quite larger weight on online reservations. As so, the VGE has to be present in these type of sites also at least three months before the opening. These two strategies should be kept, of course, even after the opening to continue to create brand awareness.

A last advertising strategy that VG should rely on is publicity in crowded arrival places, namely the city airport, train stations and on highways. This aims business people entering in the city without a defined place to stay. Also, the first two places pointed have normally internet access, which would able potential customers to make a quick reservation as soon as they arrive in town. Since these billboards aim people arriving, it doesn't make sense to advertise this way much sooner than the opening date. As so, I believe the best strategy is to start this publicity around one month before to target people

¹² Information given in an interview with VG's administrator Gonçalo Rebelo de Almeida

that go often to the city and keep it strongly in the first operating months. After that, this type of publicity should be maintained but in less intensity. In other words, in the most successfully strategic places, increasing the advertising efficiency. These promotions are applicable, of course, to both cities.

The *Price* strategy for this hotel is relatively complicated to define. First of all, it should be considered the direct competitor prices, *Ibis*, in the places where VGE should be. Considering prices of the two *Ibis* hotels in the centre of Curitiba, *Ibis Curitiba Shopping* and *Ibis Curitiba Batel*, is possible to verify an *Average Daily Price* for 2014 of €53.62 and €58.73 respectively (see **Exhibit 15** for *Ibis*' prices). This represents an average of €56.17 of daily price during 2014 for both hotels in the area. I believe that, since VG doesn't know perfectly the *Express* market yet and has only one direct competitor in the city (even though are two hotels), it shouldn't threat *Ibis* with a price war. On the other hand, to practice considerably higher prices than *Ibis* can perpetuate the most criticized characteristic of the group's hotels, the *Value-for-Money*. In the end an *Average Daily Price* should fluctuate more or less between €50 and €60, taking advantage of the high and low seasons. Another aspect that VGE could take advantage of is from the demand fluctuations within the week period: there's a higher demand for this type of hotel from Monday to Friday (working days) than on weekends, derived from the fact that businesses are mostly made on week days and so slightly higher prices could be presented at these days other than on Saturdays and Sundays.

In Porto Alegre, for the *Price* strategy should also be considered the *Ibis*' prices as a reference. The *Ibis Porto Alegre Moinhos do Vento* will practice an *Average Daily Price* of €66.8 in 2014 (see **Exhibit 15**, for *Ibis*' prices) and so a VGE in this city should have a price fluctuating around this value for the same reasons pointed for Curitiba.

Implementation Phases

Figure 1 – Implementation Chart (simplified)

	Year 0	Year 1				Year 2				Year 3	
		T1	T2	T3	T4	T1	T2	T3	T4	T1	T2
Find proper land/propriety											
Close contract											
Construction and Permits											
Final Details											
Assessing Job requirements											
Recruitment and Training											
Marketing											
Control											

As a first phase of implementation is necessary to complete the most important research for VG: to find a good land/building/hotel that would fit in the profile of a good opportunity. To find a proper propriety that would suit all the requirements is the number one task that will define the whole implementation process. Only after this is possible to set all the rest. This process can take an undefined amount of time, since VG will only move in the presence of a good investment and that might take a while to appear (e.g. in Rio de Janeiro this opportunity appeared only 10 years after VG had shown interest in the area).

Once the ideal building/land is found, the whole process is triggered. First of all, it is important to close the deal with the owner which might be relatively difficult, since the seller will probably have the upper hand regarding this business due to the fact that it should be quite complicated to find another real estate opportunity in the area. As so, it is expected something around three months of negotiations. Further on, VG must proceed to the hotel registration¹³. Though, to obtain this registration is necessary a construction licence and a construction conclusion certificate. Hence, is necessary a construction

¹³ See *Legal* section at *PESTEL Analysis* and **Exhibit 8** (Applicable Laws).

project (which wouldn't be too extensive if a proper building is bought) in order to obtain a construction permit. This would subsequently lead to the construction works, and only after it, VG would be able to register its hotel. All this process would take probably around one year and a half.

The human resources also work in this pre-opening phase, first assessing job requirements, which should not be too time consuming and can be done immediately after the construction project is settled, and then recruiting and training mostly Brazilian workers for the defined positions¹⁴ that should take slightly more than half year. This last task from the HR should be performed taking into account the forecasted opening day in order to complete the trainees close to this date. Plus, after the opening, regular trainee should take place in the way to keep always improving, as VG usually does.

For the opening time is necessary to consider the marketing campaigns (already expressed above at the *MM* section). This would start 3 months before the opening in order to tease and create some reservations for the first days. Of course these advertising measures should continue even after the opening day, with a special focus on the first months. After those, and in order to decrease marketing expenditures, the advertisements should reduce their presence, keeping only some crucial locations.

Besides the continuous training and advertisement, after the opening day the control processes would take place almost constantly, checking regularly the key indicators, such as *RevPAR*, *ADR* and *OR*. Plus, to spot trainee needs, fill gaps in the personnel and benchmark *Ibis* should be ongoing processes in order to be always up-to-date for quick responses or strategy changes. (See **Exhibit 16** for detailed Implementation Chart.)

¹⁴ VG contracts mostly Brazilian workers in Brazil in order to better adjust the culture to the clients.

FINAL CONCLUSION AND RECOMMENDATIONS

Based on all the analysis elaborated above it was possible to conclude, at a certain point, that VG should only focus on two cities of the Southern states: Curitiba and Porto Alegre, presenting the first city better prospects concerning economic and financial development, while the second one presents a superior position today, with more touristic traffic and less competition in the business hotels submarket. However, when elaborating an internationalization process, it was possible to verify through a financial analysis that the position of Curitiba was considerably worse than Porto Alegre's, mostly due to the fact that an *Express* hotel in this Paraná city would have to practice lower prices (consequence of a tight pressure of *Ibis*) and the *OR* prospects (even being quite high) are not as positive as the ones for Porto Alegre. The analysis has also shown a possibility of a good investment in Curitiba depending on the Investment cost: if the Investment is considerably lower than the one benchmarked in this document, then a VGE in Paraná could be a reality. Since the initial investment value was computed using data provided by VG referring to hotels with a considerable amount of common amenities (e.g. pools, spas), the "investment cost per room without equipment" is probably overvalued. As so, to be able to succeed in both cities, VG has to decrease the Investment cost considerably from the benchmarked here, not only in Curitiba, but also in Porto Alegre, where the initial position provides a, even though positive, quite low NPV. Yet, if VG takes too long to enter (too cautious), others might reinforce their position or even enter in the city (*HIE*), while entering in the wrong "street" might condemn a VGE right from the start.

In the end, I believe that or the opportunity is spotted in the right place in the short term, with a cost considerably lower than the one benchmarked, or VG shouldn't move to these places using VGE. All relies on the ability (and luck) of VG to find that good opportunity.

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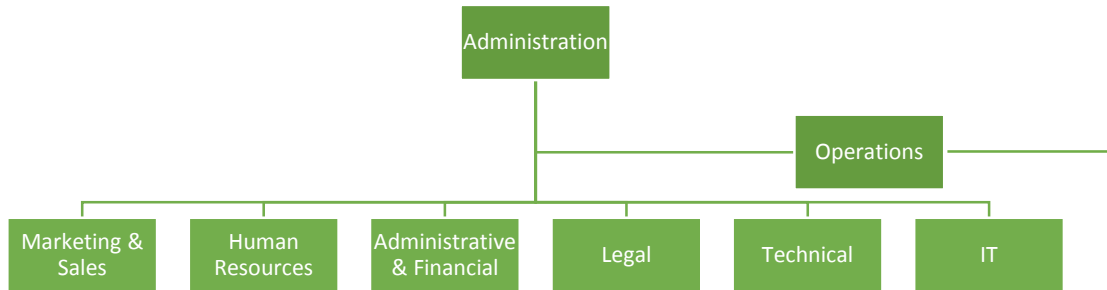
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EXHIBIT 1 Company Portfolio

<i>Hotel</i>	<i>Area/State</i>	<i>Rooms</i>
Portugal		
Albacora	Alentejo and Algarve	162
Ampalius	Alentejo and Algarve	357
Atlântico	Alentejo and Algarve	220
Cascais	Lisbon Coast	233
Cerro Alagoa	Alentejo and Algarve	310
Clube de Campo	Alentejo and Algarve	81
Coimbra	Centre	229
Collection Palácio dos Arcos	Lisbon Coast	76
Ericeira	Lisbon Coast	202
Estoril	Lisbon Coast	126
Lagos	Alentejo and Algarve	
Marina	Alentejo and Algarve	243
Náutico – All Inclusive	Alentejo and Algarve	225
Ópera	Lisbon Coast	259
Porto	Porto	292
Praia	Alentejo and Algarve	40
Santa Cruz	Alentejo and Algarve	262
Tavira	Alentejo and Algarve	268
Brasil		
Cumbuco	Ceará	465
Eco Resort de Angra – All Inclusive	Rio de Janeiro	307
Eco Resort do Cabo	Pernambuco	300
Fortaleza	Ceará	300
Marés	Bahia	447
Salvador	Bahia	224

Source: Vila Galé

EXHIBIT 2 Organizational Chart



Company Portfolio

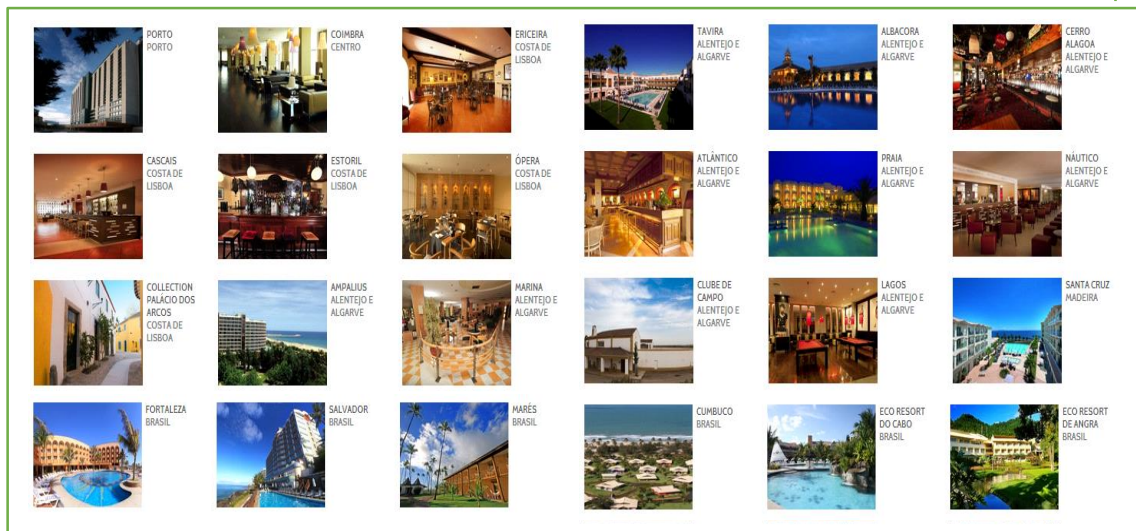


EXHIBIT 3 *booking.com* Scorecard

	<i>CLEAN</i>	<i>COMFORT</i>	<i>LOCATION</i>	<i>FACILITIES</i>	<i>STAFF</i>	<i>VALUE FOR MONEY</i>	<i>TOTAL</i>
PORTUGAL							
Porto	8.3	8	7.3	8	8	7.8	7.9
Santa Cruz	8.7	8.1	8	8.4	8.6	7.6	8.2
Ericeira	8.4	8.2	9.6	8.1	8.5	7.6	8.4
Nautico All Inclusive	6.7	7.1	7.6	7.1	8.8	6.8	7.4
Praia	9.1	9	9.1	8.9	9.6	8.5	9.0
Atlantico	6.9	6.9	8.2	7	7.5	6.7	7.2
Cerro Alagoa	8.4	7.9	8.4	7.9	8.2	7.4	8.0
Coimbra	8.9	8.7	7.8	8.5	8.6	8.2	8.5
Marina	7.9	7.4	9.2	7.2	7.8	7.1	7.8
Tavira	8.3	7.9	8.7	8	8.3	7.7	8.2
Lagos	8.6	8.6	8.4	8.6	8.6	8	8.5
Albacora	8	7.4	8.5	7.7	8	7.3	7.8
Amapalio	8	7.6	9.5	7.6	7.9	7.4	8.0
Opera	8.1	7.5	7.3	7.4	7.7	7.1	7.5
Cascais	8.1	8.2	8.6	7.7	8.1	7.5	8.0
Clube de Campo	7.2	6.7	8.2	7.1	8	6.8	7.3
Estoril	8.3	7.5	9	7.3	8.4	7.3	8.0
Collection Palácio dos Arcos	9.5	9.6	8.1	9.5	9.4	9	9.2
PORTUGUESE AVERAGE	8.2	7.9	8.4	7.9	8.3	7.5	8.0
BRAZIL							
Marés All Inclusive	7.3	8.3	8.9	7.8	7.1	6.8	7.7
Eco Resort Angra All Inclusive	6.7	7.9	8.4	7.4	7.1	6.9	7.4
Fortaleza	6.4	6.8	6.7	6.1	6.3	5.9	6.4
Cumbuco All Inclusive	7.7	8.6	7.9	8.3	7.9	7.6	8.0
Salvador	8	8.2	8.2	7.3	7.4	7.3	7.7
Eco Resort do Cabo All Inclusive	7.5	7.9	7.3	7.6	7.7	6.9	7.5
BRAZILIAN AVERAGE	7.3	8.0	7.9	7.4	7.3	6.9	7.4

Source: www.booking.com

EXHIBIT 4 VG Internal Survey

HOTELS	SIMPATIA						SERVIÇO						LIMPEZA
	recep	andar	resta	bares	manut	Sub-Total	recep	andar	resta	bares	manut	Sub-Total	
ALBACORA	88.35%	82.27%	82.95%	81.79%	82%	86.6%	78.64%	79.58%	78.83%	79.57%	80.75%	75.28%	75%
AMPALIUS	84.9%	83.76%	83.33%	81.65%	81.97%	83.86%	79.79%	81.35%	80.66%	79.72%	81.37%	79.81%	78.42%
ATLANTICO	85.4%	82.65%	82.59%	81.43%	79.48%	84.49%	77.23%	81.8%	80.1%	75.69%	78.65%	77.16%	78.3%
CASCAIS	87.19%	85.83%	82.55%	86.45%	83.6%	87.44%	84.06%	81.02%	84.68%	83.09%	85.26%	85.04%	74.64%
CERRO ALAGOA	87.53%	88.48%	85.1%	81.68%	82.94%	87.65%	87.38%	84.39%	79.54%	82.17%	87.22%	83.84%	78.48%
CLUBE DE CAMPO	88.48%	85.94%	88.29%	87.17%	84.11%	87.3%	81.88%	83.93%	83.8%	79.77%	82.66%	79.74%	80.2%
COIMBRA	90.65%	89.61%	88.09%	87.97%	87.75%	89.59%	88.16%	87.25%	86.71%	86.87%	89.42%	88.12%	83.02%
COLLECTION PALACIO DOS ARCOS	98.25%	96.59%	94.43%	94.34%	96.7%	97.95%	96.53%	93.7%	93.15%	96.21%	96.95%	96.86%	89.38%
CUMBUCO	83.12%	87.59%	86.77%	84.91%	86.79%	81.35%	82.03%	83.71%	83.55%	84.31%	83.29%	88.85%	83.66%
ECO RESORT DE ANGRA	85.16%	79.33%	79.22%	77.42%	73.21%	83.08%	72.59%	78.63%	77.11%	66.54%	70.97%	82.48%	79.85%
ECO RESORT DO CABO	81.81%	83.67%	80.52%	79.84%	79.93%	81.04%	76.91%	77.68%	75.87%	74.39%	74.88%	82.02%	79.48%
ERICEIRA	89.5%	89.76%	88.25%	84.53%	83.36%	87.82%	88.27%	86.13%	83.12%	81.34%	88.62%	81.97%	83.65%
ESTORIL	88.4%	86.9%	87.19%	85.46%	83.17%	88.22%	85.48%	85.96%	85.04%	81.89%	85.87%	81.27%	81.81%
FORTALEZA	81.65%	81.15%	78.06%	76.84%	73.17%	79.49%	77.01%	75.53%	73.81%	68.91%	76.5%	78.46%	76.68%
LAGOS	89.66%	88.89%	89.15%	85.62%	86.82%	88.77%	86.74%	87.31%	85.06%	86.14%	87.77%	87.72%	82.28%
MARES	84.86%	86.63%	83.7%	84.81%	82.93%	83.11%	83.15%	81.51%	82.85%	79.56%	83.08%	85.45%	82.09%
MARINA	85.6%	85.44%	81.55%	81.8%	82.72%	84.76%	83.09%	81.12%	80.85%	79.87%	83.61%	80.69%	76.52%
NAUTICO	94.22%	88.22%	90.21%	89.81%	88.17%	92.83%	85.65%	88%	88.48%	86.46%	85.13%	85.42%	86.49%
OPERA	85.05%	85.86%	82.02%	82.25%	81.48%	84.69%	84.06%	81.11%	81.52%	79.59%	84.45%	78.82%	79.22%
PORTO	88.33%	88.22%	88.72%	85.54%	86.5%	88.18%	87.44%	87.74%	84.69%	84.39%	87.83%	83.23%	85.37%
PRAIA	96.86%	92.97%	92.98%	91.96%	90.92%	96.03%	92.27%	91.11%	90.05%	89.62%	92.95%	92.32%	86.46%
SALVADOR	80.71%	87.21%	80.34%	82.77%	78.8%	82.14%	85.52%	78.45%	79.5%	76.3%	85.95%	86.81%	80.81%
SANTA CRUZ	90.35%	90.32%	90.04%	87.4%	88.36%	90.13%	89.88%	87.89%	85.66%	87.79%	90.81%	87.29%	81.88%
TAVIRA	86.38%	85.5%	81.69%	80.1%	80.33%	85.77%	83.32%	79.91%	78.23%	77.04%	83.05%	78.39%	73.97%
Media	87,19%	86,69%	85,3%	83,85%	83,28%	85,66%	86,15%	83,82%	83,35%	82,08%	80,65%	83,36%	84,23%

THE INTERNATIONALIZATION OF VILA GALÉ TO THE SOUTH OF BRAZIL

HOTEIS	CONFORTO	COMIDA				PRÁTICAS AMBIENTAIS	VOLTAR IA	RECOMENDAR A	Como chegou ao hotel				TOTAL
		q. alm/jant	v. alm/jant	q. peq alm	v. peq alm				agência	internet	publicidade	recomendação	
ALBACORA	72.46%	83.35%	81.25%	84.45%	93.65%	93.79%	12.01%	46.79%	11.03%	30.18%	170	465	82.6
AMPALIUS	75.78%	82.25%	81.22%	78.36%	92.94%	92.82%	20.95%	41.55%	9.8%	27.7%	138	390	82.75
ATLANTICO	75.83%	84.07%	81.37%	74.05%	92.59%	92.26%	18.42%	38.6%	12.78%	30.2%	102	241	81.72
CASCAIS	73.5%	81.71%	80.56%	80.47%	93.03%	93.94%	31.36%	41.78%	8.92%	17.93%	107	215	84.52
CERRO ALAGOA	76.03%	85.22%	83.15%	82.07%	92.75%	94.44%	39.93%	38.1%	6.8%	15.18%	130	290	85.28
CLUBE DE CAMPO	76.14%	86.51%	83.53%	84.67%	96.76%	96.88%	8.82%	35.01%	14.48%	41.69%	115	331	85.36
COIMBRA	81.04%	87.51%	86.64%	83.39%	97.03%	97.01%	14.68%	38.94%	16.52%	29.86%	333	602	88.79
COLLECTION PALACIO DOS ARCOS	87.14%	90.24%	85.85%	92.74%	99.56%	99.67%	9.33%	48.41%	10.86%	31.4%	92	266	94.98
CUMBUCO	82.77%	87.19%	85.48%	82.76%	90.81%	91.78%	39%	30.29%	4.56%	26.15%	155	889	85.33
ECO RESORT DE ANGRA	79.31%	80.7%	79.47%	68.03%	84.46%	84.04%	29.17%	29.1%	4.98%	36.74%	75	553	78.02
ECO RESORT DO CABO	76.96%	83.47%	80.51%	94.64%	82.52%	82.65%	42.57%	28.29%	2.48%	26.66%	35	377	79.67
ERICEIRA	82.82%	86.15%	83.91%	81.27%	97.5%	97.62%	37.67%	25.24%	13.32%	23.77%	209	373	87.15
ESTORIL	79.41%	85.32%	82.91%	79.58%	93.98%	94.56%	30.86%	34.89%	12.95%	21.3%	183	301	85.89
FORTALEZA	74.54%	81.64%	80.11%	71.05%	80.43%	79.63%	53.96%	26.11%	4.07%	15.87%	105	409	77.48
LAGOS	80.51%	86.15%	83.28%	83.43%	96.07%	97.32%	34.72%	33.19%	13.23%	18.86%	336	479	87.51
MARES	82.91%	82.49%	81.49%	85.9%	92.49%	92.53%	44.88%	19.94%	4.32%	30.86%	172	1229	84.3
MARINA	74.69%	80.17%	80.78%	79.88%	90.59%	90.33%	25.21%	42.38%	9.84%	22.57%	82	188	82.69
NAUTICO	84.64%	87.36%	85.31%	82.54%	92.5%	94.99%	51.16%	31.92%	3.96%	12.96%	58	190	88.26
OPERA	77.09%	81.73%	80.63%	77.94%	90.43%	90.31%	22.61%	35.89%	12.29%	29.21%	149	354	83.07
PORTO	84.46%	86.83%	85.51%	80.58%	95.44%	96.35%	50.58%	21.35%	9.79%	18.28%	271	506	87.5
PRAIA	80.4%	89.65%	87.17%	89.16%	98.72%	99.4%	11.88%	62.28%	7.98%	17.86%	80	179	92
SALVADOR	77.62%	83.64%	80.68%	74.64%	92.05%	89.38%	52.82%	28.39%	3.13%	15.66%	15	75	82.83
SANTA CRUZ	78.45%	84.18%	81.15%	83.45%	93.2%	95.58%	40.91%	30.73%	9.88%	18.48%	295	552	87.85
TAVIRA	72.41%	82.89%	81.9%	78.59%	93.38%	94%	18.35%	46.83%	10.98%	23.84%	296	643	82.71
Media	83.79%	81.08%	79.45%	84.53%	82.68%	81.65%	92.3%	92.85%	39.29%	36.04%	10.49%	25.66%	84.74%

Source: Vila Galé (from January to October 2013; Total surveys made: 43,020; Sample's Percentage: 14.20%)

EXHIBIT 5 Regional Maps

Source: *OECD iLibrary – OECD Regions at a Glance*

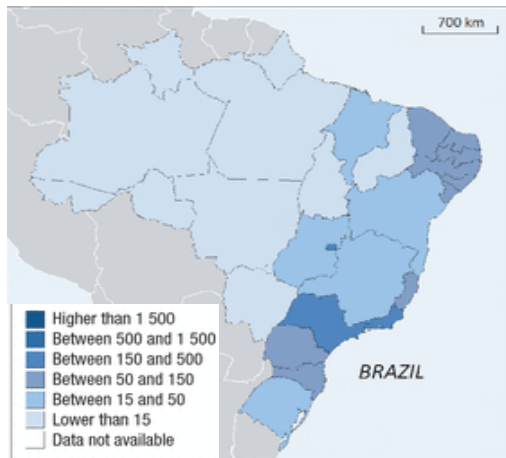


Figure 1 Distribution of Population (inhabitants per Square Kilometer)

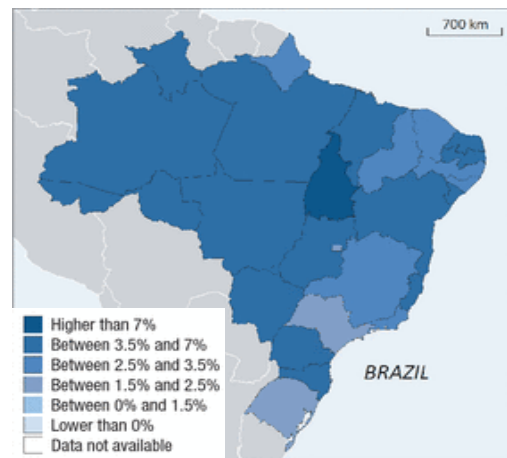


Figure 2 Regional contribution to GDP growth from '95 to '07 (average annual rate at constant 2000 USD)

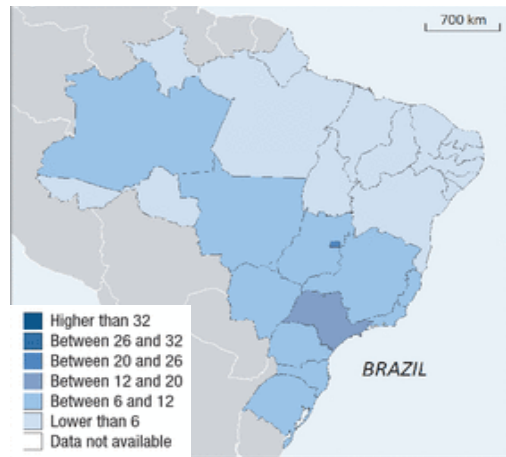


Figure 3 Regional Economic Disparities (GDP per capita, constant 2000 USD in thousands)



Figure 4 Carbon Emissions and Air Quality (population exposures to air pollution, by WHOPM2.5 thresholds)



Figure 5 Forest and Carbon Footprints (carbon absorption through biomass production)

EXHIBIT 6 Brazilian and Regional's growth

Brazil's growth from 95' to 07' (in percentage). **Average Annual Growth: 2.97%**

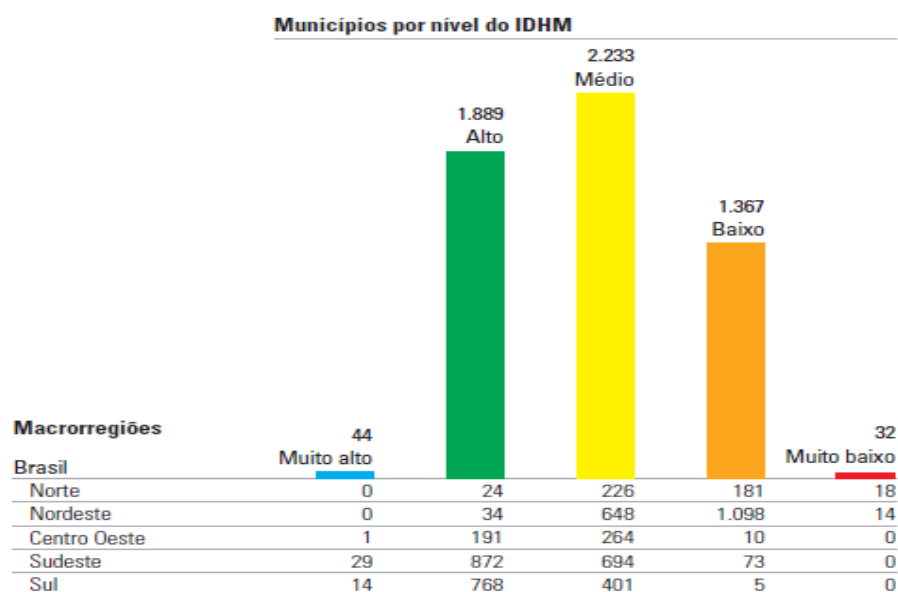
	95'	96'	97'	98'	99'	00'	01'	02'	03'	04'	05'	06'	07'
Annual Growth	4.42	2.15	3.37	0.04	0.26	4.31	1.31	2.66	1.15	5.71	3.16	3.96	6.10

Source: World Bank

Region	State	Average Annual GDP Growth Rate from 95' to 07' (%)
North	Acre	4.80
	Amapá	3.48
	Amazonas	3.85
	Pará	4.51
	Rondônia	5.04
	Roraima	3.81
	Tocantins	7.08
	<i>Northern Region Average</i>	4.65
Northeast	Alagoas	3.09
	Bahia	3.80
	Ceará	2.73
	Maranhão	5.33
	Paraíba	4.08
	Pernambuco	3.13
	Piauí	3.36
	Rio Grande Do Norte	4.77
	Sergipe	4.33
	<i>North-Eastern Region Average</i>	3.85
Southeast	Espírito Santo	4.09
	Minas Gerais	3.40
	Rio De Janeiro	2.95
	São Paulo	2.16
	<i>South-Eastern Region Average</i>	3.15
South	Paraná	3.53
	Rio Grande Do Sul	2.44
	Santa Catarina	4.15
	<i>Southern Region Average</i>	3.37
Central West	Distrito Federal	1.61
	Goiás	4.52
	Mato Grosso	6.79
	Mato Grosso Do Sul	4.26
	<i>Central-Western Region Average</i>	4.29

Source: OECD

EXHIBIT 7 HDI



Source: “O Índice do Desenvolvimento Humano Municipal Brasileiro

EXHIBIT 8 Laws Applicable to the Hotel Business in Brazil

Transcript from *Lei Geral do Turismo*

Art. 22. Os prestadores de serviços turísticos estão obrigados ao cadastro no Ministério do Turismo, na forma e nas condições fixadas nesta Lei e na sua regulamentação.

Art. 23. Consideram-se meios de hospedagem os empreendimentos ou estabelecimentos, independentemente de sua forma de constituição, destinados a prestar serviços de alojamento temporário, ofertados em unidades de frequência individual e de uso exclusivo do hóspede, bem como outros serviços necessários aos usuários, denominados de serviços de hospedagem, mediante adoção de instrumento contratual, tácito ou expresso, e cobrança de diária.

§ 1 Os empreendimentos ou estabelecimentos de hospedagem que explorem ou administrem, em condomínios residenciais, a prestação de serviços de hospedagem

em unidades mobiliadas e equipadas, bem como outros serviços oferecidos a hóspedes, estão sujeitos ao cadastro de que trata esta Lei e ao seu regulamento.

Art. 24. Os meios de hospedagem, para obter o cadastramento, devem preencher pelo menos um dos seguintes requisitos:

I - possuir licença de funcionamento, expedida pela autoridade competente, para prestar serviços de hospedagem, podendo tal licença objetivar somente partes da edificação; e

II - no caso dos empreendimentos ou estabelecimentos conhecidos como condomínio hoteleiro, flat, flat-hotel, hotel-residence, loft, apart-hotel, apart-service condominial, condohotel e similares, possuir licença edilícia de construção ou certificado de conclusão de construção, expedidos pela autoridade competente, acompanhados dos seguintes documentos:

a) convenção de condomínio ou memorial de incorporação ou, ainda, instrumento de instituição condominial, com previsão de prestação de serviços hoteleiros aos seus usuários, condôminos ou não, com oferta de alojamento temporário para hóspedes mediante contrato de hospedagem no sistema associativo, também conhecido como pool de locação;

b) documento ou contrato de formalização de constituição do pool de locação, como sociedade em conta de participação, ou outra forma legal de constituição, com a adesão dos proprietários de pelo menos 60% (sessenta por cento) das unidades habitacionais à exploração hoteleira do empreendimento;

c) contrato em que esteja formalizada a administração ou exploração, em regime solidário, do empreendimento imobiliário como meio de hospedagem de

responsabilidade de prestador de serviço hoteleiro cadastrado no Ministério do Turismo;

d) certidão de cumprimento às regras de segurança contra riscos aplicáveis aos estabelecimentos comerciais; e

e) documento comprobatório de enquadramento sindical da categoria na atividade de hotéis, exigível a contar da data de eficácia do segundo dissídio coletivo celebrado na vigência desta Lei.

Art. 26. Os meios de hospedagem deverão fornecer ao Ministério do Turismo, em periodicidade por ele determinada, as seguintes informações:

I - perfil dos hóspedes recebidos, distinguindo-os por nacionalidade; e

II - registro quantitativo de hóspedes, taxas de ocupação, permanência média e número de hóspedes por unidade habitacional.

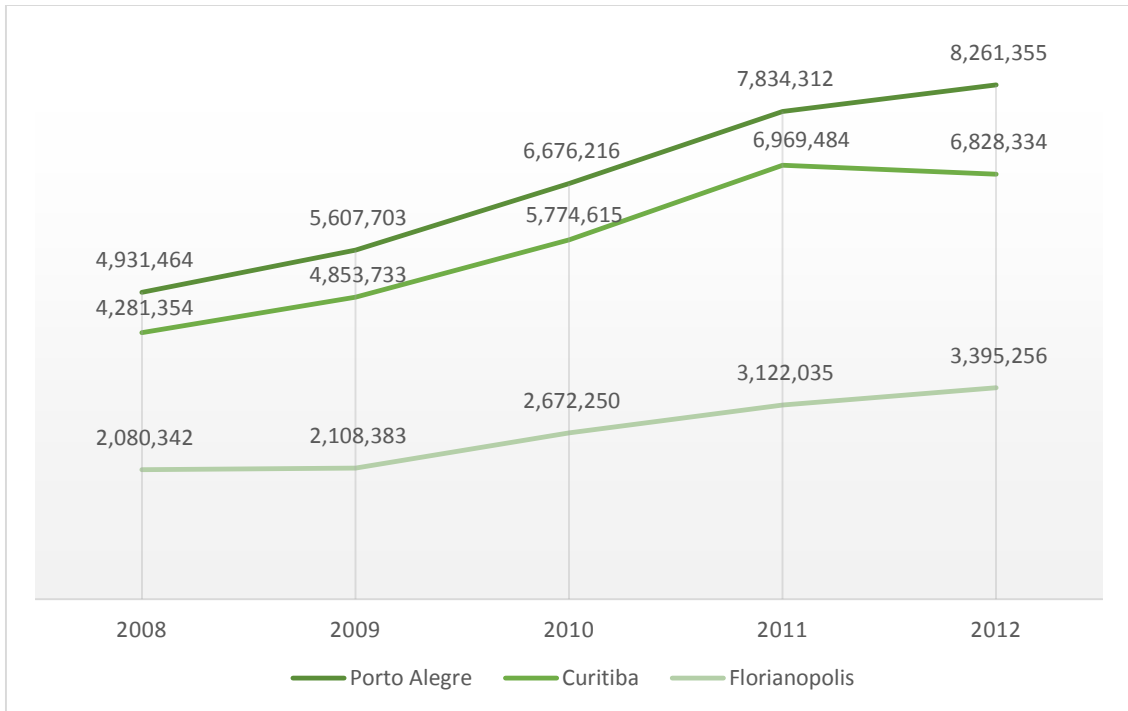
EXHIBIT 9 Airport Information

Table 1 – Passengers passing through the Airports

	City	Position	Passengers in 2012		Total in 2012	Relative Weight	
			Domestic	International		Domestic	International
SBGR	<i>São Paulo</i>	1	21,234,352	11,542,978	32,777,330	64.78%	35.22%
SBGL	<i>Rio de Janeiro</i>	2	13,201,049	4,294,688	17,495,737	75.45%	24.55%
SBSP	<i>São Paulo</i>	3	16,775,770	-	16,775,770	100.00%	0.00%
SBBR	<i>Brasília</i>	4	15,480,033	411,497	15,891,530	97.41%	2.59%
SBCF	<i>Belo Horizonte</i>	5	9,952,684	445,612	10,398,296	95.71%	4.29%
SBRJ	<i>Rio de Janeiro</i>	6	9,002,863	-	9,002,863	100.00%	0.00%
SBKP	<i>Campinas</i>	7	8,780,290	78,090	8,858,380	99.12%	0.88%
SBSV	<i>Salvador</i>	8	8,502,605	308,935	8,811,540	96.49%	3.51%
SBPA	<i>Porto Alegre</i>	9	7,606,507	654,848	8,261,355	92.07%	7.93%
SBCT	<i>Curitiba</i>	10	6,738,071	90,263	6,828,334	98.68%	1.32%
SBRF	<i>Recife</i>	11	6,221,013	212,397	6,433,410	96.70%	3.30%
SBFZ	<i>Fortaleza</i>	12	5,764,339	199,969	5,964,308	96.65%	3.35%
SBVT	<i>Vitoria</i>	13	3,642,842	-	3,642,842	100.00%	0.00%
SBFL	<i>Florianópolis</i>	14	3,178,877	216,379	3,395,256	93.63%	6.37%

Source: Infraero in “Anuário Estatístico Operacional”

Chart 1 – Evolution of Passenger Traffic in the three major Southern Airports in 2012.



Source: Infraero

EXHIBIT 10 EY Report

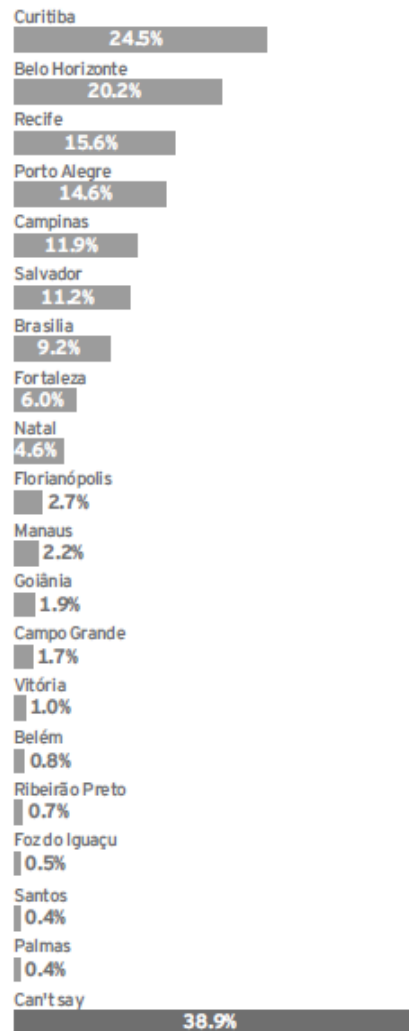
Brazilian cities ranked based on FDI.

Rank	Region	City	Number of projects			Change 2011 vs. 2010	Infrastructure development
			2010	2011	Share in FDI 2011		
1	Southeast	São Paulo	93	134	26%	44%	+
2	Southeast	Rio de Janeiro	23	43	8%	87%	+
3	South	Curitiba	5	11	2%	120%	-
4	Southeast	Campinas	8	7	1%	-13%	+
5	South	Porto Alegre	3	5	1%	67%	-
6	North	Manaus	8	5	1%	-38%	-
7	Southeast	Taubate	1	4	1%	300%	+
8	Northeast	Salvador	4	3	1%	-25%	-
9	Northeast	Recife	3	3	1%	0%	-
10	Southeast	Pindamonhangaba	-	3	1%	0%	+
11		Others	218	289	57%	33%	
		Total	366	507	100%	39%	

Ranking of the Most Promising Cities in Brazil

What are the three most promising Brazilian second cities?

(excluding São Paulo and Rio de Janeiro)



Source: EY in *Capturing the Momentum – Brazil*

EXHIBIT 11 TOWS Analysis

	OPPORTUNITIES	THREATS
STRENGTHS	<ul style="list-style-type: none"> • Take advantage of the strong brand and knowledge of the Brazilian Market to create stronger entry barriers to <i>HIE</i> in these cities; • The knowledge of the Brazilian market will decrease the opening time of the hotel, maybe at time of the international events; • Use the proximity of Argentina, Paraguay and Uruguay to study deeper potential entrances in these markets. 	<ul style="list-style-type: none"> • In the eventuality of the amount of tourists in these cities decrease due to a worse economic slowdown, knowing the market and having a strong brand would help VGE to sustain its numbers; • Being careful and having a strong brand are qualities that will allow VG to locate the best location to compete directly with <i>Ibis</i> and eliminate other small/not specialized hotels
WEAKNESSES	<ul style="list-style-type: none"> • The strong development and prospects will most likely create what VG considers good opportunities (properties for the right price), so don't need to be so patient and risk to open too late; • The lack of <i>HIE</i> lowers the pressure over VG to create excellent express hotels right at the beginning. Lack 	<ul style="list-style-type: none"> • Being extremely careful will give time to <i>Ibis</i> to reinforce its presence in each town; • Using <i>HIE</i> as a benchmark would be good to start since it would "steal" from <i>Ibis</i> the clients that looked for this hotels of <i>IHG</i>, creating the competition that these cities need;

<p>of competition gives time to improve and find the right model;</p> <ul style="list-style-type: none"> • If VG realizes it will need partners in the South due to the strong development and upcoming events, partnerships will not be difficult to obtain, since there will be a large offer. 	<ul style="list-style-type: none"> • A Brazilian slowdown would affect more VG if its portfolio was concentrated in only one region (as it is currently).
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EXHIBIT 12 Hotel Concentration Analysis Maps

Figure 1 – Business Hotels and *Ibis* Hotels in Curitiba

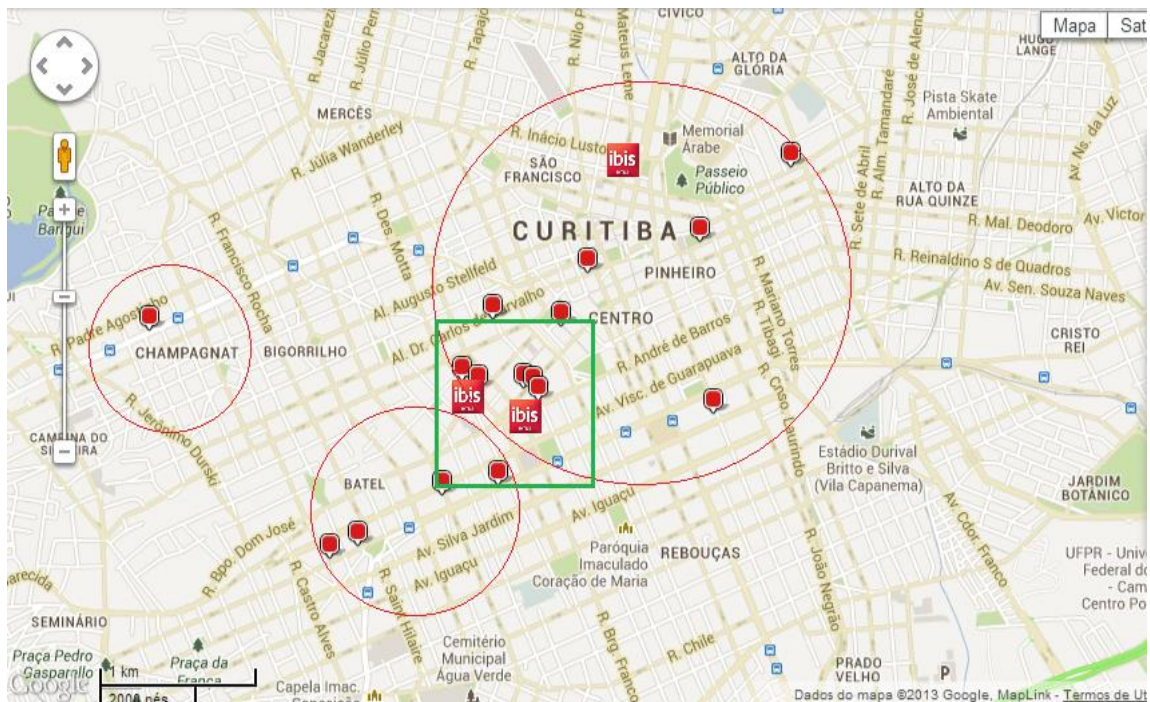


Figure 2 – Business Hotels and *Ibis* Hotels in **Porto Alegre**

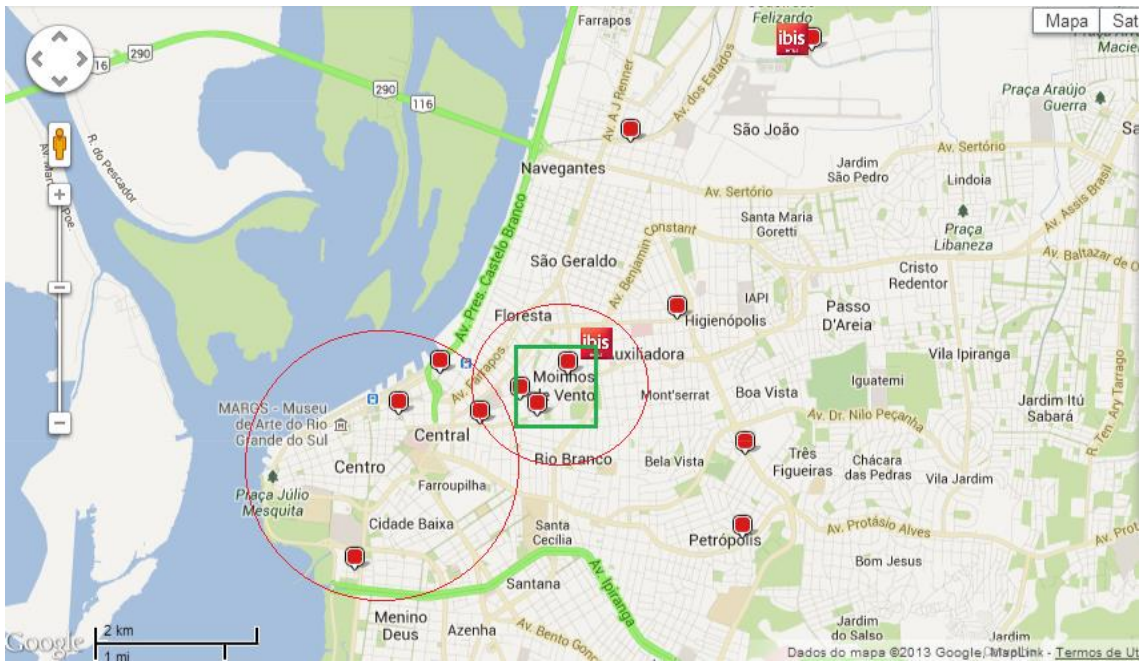


Figure 3 – Business Hotels and *Ibis* Hotels in **Florianópolis**

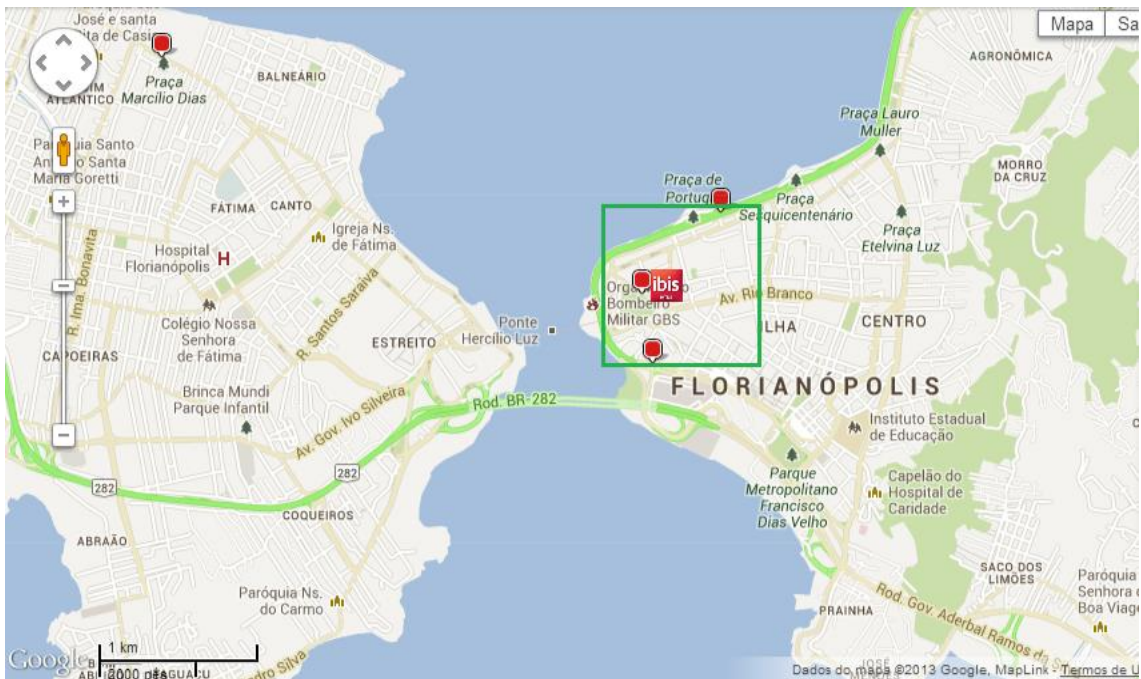


EXHIBIT 13 Occupancy Rate Prospects

Curitiba

MIDSCALE CATEGORY



ECONOMY CATEGORY



Porto Alegre

MIDSCALE CATEGORY



ECONOMY CATEGORY



Source: Hotel Invest

EXHIBIT 14 Financial Information and Scenarios

Salaries

	# Employees			Emp. Av. Cost/Month		Total Annual Cost	
	Initial Model	Proportional ¹	Assumed	Initial Model	Assumed	Initial Model	Assumed
Lodging	32	20	10	1,200	1,200	460,800	144,000
F&B	30	18	8	1,400	1,000	504,000	96,000
Administration	4	3	3	3,000	3,000	144,000	108,000
Maintenance	3	2	2	1,500	1,500	54,000	36,000
						1,162,800	384,000

Investment

	VG (Average Room Size of 28m ²)		VGE (Benchmarked Room Size of 18m ²)	
	Total	Per Sq. Meter	Total	Per Sq. Meter
Equipment	12,000 ²	428.57	8,000	444.44
Without Equipment	88,000	3,142.86	57,600	3,200 ³
Total Investment per Room	100,000	3,571.43	65,600	3,644.44

¹ Rounded up

² 12% of the Total Investment per Room, data provided by VG

³ Value of the Investment per Room without Equipment of a normal VG Hotel rounded up.

THE INTERNATIONALIZATION OF VILA GALÉ TO THE SOUTH OF BRAZIL

CURITIBA BENCHMARK		Rates/ Unit Price	Year (Relevant ones showing changes considered in)											
			0	1	2	10	11 ¹	15 ²	16	20 ³	21	30		
Rooms Available per Year		120	0	43800	43800	43800	43800	43800	43800	43800	43800	43800	43800	43800
Average Occupancy Rate			0	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
Occupied Rooms per Year			0	31536	31536	31536	31536	31536	31536	31536	31536	31536	31536	31536
Paid Nights (Freq. Index)		1	0	31536	31536	31536	31536	31536	31536	31536	31536	31536	31536	31536
Average Room Price		60	60	60	60	60	60	60	60	60	60	60	60	60
Rev.	Lodging		0	1892160	1892160	1892160	1892160	1892160	1892160	1892160	1892160	1892160	1892160	1892160
	F&B	5	0	157680	157680	157680	157680	157680	157680	157680	157680	157680	157680	157680
<i>Total Revenues</i>			0	2049840	2049840	2049840	2049840	2049840	2049840	2049840	2049840	2049840	2049840	2049840
Operational Costs	Lodging	# Employees	0	10	10	10	10	10	10	10	10	10	10	10
		Employees' cost	14400	0	144000	144000	144000	144000	144000	144000	144000	144000	144000	144000
		Other Lodging Costs	0.05	0	94608	94608	94608	94608	94608	94608	94608	94608	94608	94608
		<i>Total Lodg. Costs</i>		0	238608	238608	238608	238608	238608	238608	238608	238608	238608	238608
	<i>(Lodging Results)</i>			0	1653552	1653552	1653552	1653552	1653552	1653552	1653552	1653552	1653552	1653552
	F&B	# Employees		0	8	8	8	8	8	8	8	8	8	8
		Employees' cost	12000	0	96000	96000	96000	96000	96000	96000	96000	96000	96000	96000
		Direct Costs	0.3	0	47304	47304	47304	47304	47304	47304	47304	47304	47304	47304
		Other F&B Costs	0.03	0	4730.4	4730.4	4730.4	4730.4	4730.4	4730.4	4730.4	4730.4	4730.4	4730.4
		<i>Total F&B Costs</i>		0	148034.4	148034.4	148034.4	148034.4	148034.4	148034.4	148034.4	148034.4	148034.4	148034.4
	<i>(F&B Results)</i>			0	9645.6	9645.6	9645.6	9645.6	9645.6	9645.6	9645.6	9645.6	9645.6	9645.6
	Administ.	# Employees		0	3	3	3	3	3	3	3	3	3	3
		Employees' cost	36000	0	108000	108000	108000	108000	108000	108000	108000	108000	108000	108000
		Other Costs	0.01	0	20498.4	20498.4	20498.4	20498.4	20498.4	20498.4	20498.4	20498.4	20498.4	20498.4
		<i>Total Administ. Costs</i>		0	128498.4	128498.4	128498.4	128498.4	128498.4	128498.4	128498.4	128498.4	128498.4	128498.4
	Mainten.	# Employees		0	2	2	2	2	2	2	2	2	2	2
		Employees' cost	18000	0	36000	36000	36000	36000	36000	36000	36000	36000	36000	36000
		Other Costs	0.03	0	61495.2	61495.2	61495.2	61495.2	61495.2	61495.2	61495.2	61495.2	61495.2	61495.2
	<i>Total Mainten. Costs</i>			0	97495.2	97495.2	97495.2	97495.2	97495.2	97495.2	97495.2	97495.2	97495.2	97495.2
	Energy	5	0	157680	157680	157680	157680	157680	157680	157680	157680	157680	157680	157680
Marketing	0.0317	0	64979.928	64979.928	64979.928	64979.928	64979.928	64979.928	64979.928	64979.928	64979.928	64979.928	64979.928	
Others	0.0236	0	48376.224	48376.224	48376.224	48376.224	48376.224	48376.224	48376.224	48376.224	48376.224	48376.224	48376.224	
<i>Total Operational Costs</i>			0	883672.152	883672.152	883672.152	883672.152	883672.152	883672.152	883672.152	883672.152	883672.152	883672.152	
EBITDA			0	1166167.848	1166167.848	1166167.848	1166167.848	1166167.848	1166167.848	1166167.848	1166167.848	1166167.848	1166167.848	
Deprec.	Land&Building	0.05	0	334560	334560	334560	334560	334560	334560	334560	0	0	0	
	Equipment&Furniture	0.067	0	78720	78720	78720	78720	78720	55104	55104	55104	55104	55104	
	<i>Total Annual Deprec.</i>		0	413280	413280	413280	413280	413280	389664	389664	55104	55104	55104	
EBIT			0	752887.848	752887.848	752887.848	752887.848	752887.848	776503.848	776503.848	1111063.848	1111063.848	1111063.848	
Interests			0	0	0	0	0	0	0	0	0	0	0	

¹ First year with positive cumulative Cash Flow

² Remodel year. Considering 80% of the Investment at year 0.

³ End of building depreciation

EBT	in Euros		0	752887.848	752887.848	752887.848	752887.848	752887.848	776503.848	1111063.848	1111063.848
	In Reals (for the IRPJ)	2.729 ⁴	0	2054898.217	2054898.217	2054898.217	2054898.217	2054898.217	2119354.664	3032487.675	3032487.675
Taxes	IRPJ ⁵ (in Euros)	0.15	0	179429.216	179429.216	179429.216	179429.216	179429.216	185333.2352	185333.2352	268973.5071
	CSLL ⁶	0.09	0	67759.90632	67759.90632	67759.90632	67759.90632	67759.90632	69885.34632	99995.74632	99995.74632
	PIS/PASEP ⁷	0.0165	0	12422.64949	12422.64949	12422.64949	12422.64949	12422.64949	12812.31349	18332.55349	18332.55349
	COFINS ⁸	0.076	0	57219.47645	57219.47645	57219.47645	57219.47645	57219.47645	59014.29245	84440.85245	84440.85245
	ISS ⁹	0.05	0	102492	102492	102492	102492	102492	102492	102492	102492
	ITBI ¹⁰	0.02	157440	0	0	0	0	0	0	0	0
	<i>Total Taxes</i> ¹¹		157440	419323.2483	419323.2483	419323.2483	419323.2483	419323.2483	429537.1875	429537.1875	574234.6594
Earnings		-157440	333564.5997	333564.5997	333564.5997	333564.5997	333564.5997	346966.6605	346966.6605	536829.1886	536829.1886
Depreciations		0	413280	413280	413280	413280	413280	389664	389664	55104	55104
CapEX	Land&Building	0.85	6691200	0	0	0	0	0	0	0	0
	Equipment&Furniture	0.15	1180800	0	0	0	0	826560	0	0	0
	<i>Total CapEX</i> ¹²		7872000	0	0	0	0	826560	0	0	0
FCF		-8029440	746844.5997	746844.5997	746844.5997	746844.5997	-79715.40031	736630.6605	736630.6605	591933.1886	591933.1886
(Actualized FCF)		-8029440	678949.6361	617226.9419	287940.9237	261764.4761	-19083.23305	160312.294	109495.4539	79988.26973	33922.83469
Cumulative FCF		-8029440	-7282595.4	-6535750.801	-560994.0031	185850.5966	2346668.995	3083299.656	6029822.298	6621755.487	11949154.18
(Cum. Actualized FCF)		-8029440	-7350490.364	-6733263.422	-3440403.24	-3178638.764	-2546752.488	-2386440.194	-1878271.793	-1798283.523	-1337629.173

Financial Indicators: Curitiba's Benchmark

Cost of Equity	10%
NPV	-1,337,629.17€
PI	0.829
Annualized Benefit	-141,894.70€

⁴ Rate provided by Bloomberg, computed using geometric average for a 10 years weekly data

⁵ Computed over the EBT (15% over the total results, plus 10% over the annual EBT share over 240,000 Reals)

⁶ Computed over the EBT

⁷ Computed over the EBT

⁸ Computed over the EBT

⁹ Computed over the Total Revenues

¹⁰ Computed over the Total CapEX

¹¹ There is one Municipal Tax (*IPTU*) that was not considered since it depends of the property value each year

¹² Computed by multiplying the Total Investment per Room (see Investment Table) by the number of rooms

THE INTERNATIONALIZATION OF VILA GALÉ TO THE SOUTH OF BRAZIL

PORTO ALEGRE BENCHMARK		Rates/ Unit Price	Year (Relevant ones showing changes considered in)													
			0	1	2	8	9	15	16	20	21	30				
Rooms Available per Year		120	0	43800	43800	43800	43800	43800	43800	43800	43800	43800	43800	43800	43800	
Average Occupancy Rate		80%	0%	80%	80%	0.8	0.8	80%	80%	80%	80%	80%	80%	80%	80%	
Occupied Rooms per Year			0	35040	35040	35040	35040	35040	35040	35040	35040	35040	35040	35040	35040	
Paid Nights (Freq. Index)		1	0	35040	35040	35040	35040	35040	35040	35040	35040	35040	35040	35040	35040	
Average Room Price		66	66	66	66	66	66	66	66	66	66	66	66	66	66	
Rev.	Lodging		0	2312640	2312640	2312640	2312640	2312640	2312640	2312640	2312640	2312640	2312640	2312640	2312640	
	F&B	5	0	175200	175200	175200	175200	175200	175200	175200	175200	175200	175200	175200	175200	
<i>Total Revenues</i>			0	2487840	2487840	2487840	2487840	2487840	2487840	2487840	2487840	2487840	2487840	2487840	2487840	
Operational Costs	Lodging	# Employees	0	10	10	10	10	10	10	10	10	10	10	10	10	
		Employees' cost	0	0	144000	144000	144000	144000	144000	144000	144000	144000	144000	144000	144000	144000
		Other Lodging Costs	5%	0	115632	115632	115632	115632	115632	115632	115632	115632	115632	115632	115632	115632
		<i>Total Lodg. Costs</i>		0	259632	259632	259632	259632	259632	259632	259632	259632	259632	259632	259632	259632
	<i>(Lodging Results)</i>			0	2053008	2053008	2053008	2053008	2053008	2053008	2053008	2053008	2053008	2053008	2053008	2053008
	F&B	# Employees		0	8	8	8	8	8	8	8	8	8	8	8	8
		Employees' cost	0	0	96000	96000	96000	96000	96000	96000	96000	96000	96000	96000	96000	96000
		Direct Costs	30%	0	52560	52560	52560	52560	52560	52560	52560	52560	52560	52560	52560	52560
		Other F&B Costs	3%	0	5256	5256	5256	5256	5256	5256	5256	5256	5256	5256	5256	5256
		<i>Total F&B Costs</i>		0	153816	153816	153816	153816	153816	153816	153816	153816	153816	153816	153816	153816
	<i>(F&B Results)</i>			0	21384	21384	21384	21384	21384	21384	21384	21384	21384	21384	21384	21384
	Adminis	# Employees		0	3	3	3	3	3	3	3	3	3	3	3	3
		Employees' cost	0	0	108000	108000	108000	108000	108000	108000	108000	108000	108000	108000	108000	108000
		Other Costs	1%	0	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4	24878.4
		<i>Total Administ Costs</i>		0	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4	132878.4
	Mainten.	# Employees		0	2	2	2	2	2	2	2	2	2	2	2	2
		Employees' cost	0	0	36000	36000	36000	36000	36000	36000	36000	36000	36000	36000	36000	36000
		Other Costs	3%	0	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2	74635.2
		<i>Total Mainten. Costs</i>		0	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2	110635.2
Energy	5	0	175200	175200	175200	175200	175200	175200	175200	175200	175200	175200	175200	175200		
Marketing	3.17%	0	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528	78864.528		
Others	2.36%	0	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024	58713.024		
<i>Total Operational Costs</i>			0	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	969739.152	
EBITDA			0	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	1518100.848	
Dep.	Land&Building	5%	0	334560	334560	334560	334560	334560	334560	334560	334560	334560	334560	334560	0	
	Equipment&Furniture	6.67%	0	78720	78720	78720	78720	78720	55104	55104	55104	55104	55104	55104	55104	
	<i>Total Annual Deprec</i>		0	413280	413280	413280	413280	413280	389664	389664	389664	389664	389664	389664	55104	
EBIT			0	1104820.848	1104820.848	1104820.848	1104820.848	1104820.848	1128436.848	1128436.848	1128436.848	1128436.848	1128436.848	1462996.848	1462996.848	
Interest			0	0	0	0	0	0	0	0	0	0	0	0	0	
EBT	(in Euros)		0	1104820.848	1104820.848	1104820.848	1104820.848	1104820.848	1128436.848	1128436.848	1128436.848	1128436.848	1128436.848	1462996.848	1462996.848	
	(in Reals)	0	0	3015448.312	3015448.312	3015448.312	3015448.312	3015448.312	3079904.76	3079904.76	3079904.76	3079904.76	3079904.76	3993037.77	3993037.77	

Tax	IRPJ	15%	0	267412.752	267412.752	267412.752	267412.752	267412.752	273316.7712	273316.7712	356957.0431	356957.0431
	CSLL	9%	0	99433.87632	99433.87632	99433.87632	99433.87632	99433.87632	101559.3163	101559.3163	131669.7163	131669.7163
	PIS/PASEP	1.65%	0	18229.54399	18229.54399	18229.54399	18229.54399	18229.54399	18619.20799	18619.20799	24139.44799	24139.44799
	COFINS	7.60%	0	83966.38445	83966.38445	83966.38445	83966.38445	83966.38445	85761.20045	85761.20045	111187.7604	111187.7604
	ISS	5%	0	124392	124392	124392	124392	124392	124392	124392	124392	124392
	ITBI	2%	157440	0	0	0	0	0	0	0	0	0
<i>Total Taxes</i>			157440	593434.5568	593434.5568	593434.5568	593434.5568	593434.5568	603648.496	603648.496	748345.9679	748345.9679
Earnings			-157440	511386.2912	511386.2912	511386.2912	511386.2912	511386.2912	524788.352	524788.352	714650.8801	714650.8801
Depreciations			0	413280	413280	413280	413280	413280	389664	389664	55104	55104
Cap EX	Land&Building	85%	6691200	0	0	0	0	0	0	0	0	0
	Equipment&Forniture	15%	1180800	0	0	0	0	826560	0	0	0	0
	<i>Total CapEX</i>		7872000	0	0	0	0	826560	0	0	0	0
FCF			-8029440	924666.2912	924666.2912	924666.2912	924666.2912	98106.2912	914452.352	914452.352	769754.8801	769754.8801
<i>(Actualized FCF)</i>			-8029440	840605.7193	764187.0175	431363.6491	392148.7719	23485.86611	199011.4751	135927.5153	104017.4164	44113.53858
<i>Cumulative FCF</i>			-8029440	-7104773.709	-6180107.418	-632109.6704	292556.6208	5013994.368	5928446.72	9586256.128	10356011.01	17283804.93
<i>(Cumulative Actualized FCF)</i>			-8029440	-7188834.281	-6424647.263	-3096413.579	-2704264.807	-1194226.565	-995215.0895	-364375.4912	-260358.0748	338680.7037

Financial Indicators: Porto Alegre's Benchmark

Cost of Equity	10%
NPV	338,680.70€
PI	1.037
Annualized Benefit	35,926.99€

Scenario Analysis - CURITIBA

Changing Investment without Equipment per m2							
Scenario	Cheap and Simple	Cheap	Simple	Benchmark	Elaborated	Expensive	
Invest. Without Equip./m2	2300	2600	2900	3200	3500	3800	
Ind.	Total Invest.	5928000	6576000	7224000	7872000	8520000	9168000
	NPV	315,231.52€	-235,722.04€	-786,675.61€	-1,337,629.17€	-1,888,582.74€	-2,439,536.30€
	PI	1.047	0.960	0.889	0.829	0.779	0.735

Changing Amount of Rooms						
Scenario	Smallest	Smaller	Benchmark	Larger	Largest	
Amount of Rooms	80	100	120	140	160	
Ind.	Total Investment	5248000	6560000	7872000	9184000	10496000
	NPV	-1,548,891.46€	-1,443,260.32€	-1,337,629.17€	-1,231,998.03€	-1,126,366.89€
	PI	0.707	0.780	0.829	0.864	0.890

Changing Amount of Rooms and Investment without Equipment per m2 (negative correlation)						
Scenario	Cheap and Largest	Simple and Larger	Benchmark	Elaborated and Smaller	Expensive and Smallest	
Invest. Without Equip./m2	2600	2900	3200	3500	3700	
Amount of Rooms	160	140	120	100	80	
Ind.	Invest/Room	54800	60200	65600	71000	74600
	Total Investment	8768000	8428000	7872000	7100000	5968000
	NPV	342,842.62€	-589,218.87€	-1,337,629.17€	-1,902,388.29€	-2,161,062.09€
	PI	1.033	0.927	0.829	0.734	0.642

Changing Amount of Rooms and Investment without Equipment per m2 (positive correlation)						
Scenario	Cheap and Smallest	Simple and Smaller	Benchmark	Elaborated and Larger	Expensive and Largest	
Inv. Without Equip./m2	80	100	120	140	160	
Amount of Rooms	2600	2900	3200	3500	3800	
Ind.	Invest/Room	54800	60200	65600	71000	76400
	Total Investment	4384000	6020000	7872000	9940000	12224000
	NPV	-814,286.70€	-984,132.34€	-1,337,629.17€	-1,874,777.19€	-2,595,576.40€
	PI	0.814	0.836	0.829	0.811	0.788

Changing Prices						
Scenario	Lower	Low	Benchmark	High	Higher	
Price	50	55	60	65	70	
Ind.	NPV	-2,630,951.92€	-1,984,290.55€	-1,337,629.17€	-690,967.80€	-44,306.42€
	PI	0.669	0.749	0.829	0.909	0.989

Changing Annual Average Occupancy Rate						
Scenario	Pessimistic	MidScale Prospects	Benchmark	Optimistic	Porto Alegre Prospects	
Av. Annual OR	64%	68%	72%	76%	80%	
Ind.	NPV	-2,151,723.88€	-1,744,676.53€	-1,337,629.17€	-930,581.82€	-523,534.46€
	PI	0.728	0.779	0.829	0.880	0.930

Changing Prices and Annual Average Occupancy Rate (negative correlation)						
Scenario		Lower	Low	Benchmark	High	Higher
Price		50	55	60	65	70
Av. Annual Occ. Rate		80%	76%	72%	68%	64%
Ind.	NPV	-1,960,559.74€	-1,613,168.82€	-1,337,629.17€	-1,133,940.79€	-1,002,103.66€
	PI	0.752	0.795	0.829	0.854	0.871

Changing Prices and Amount of Rooms (negative correlation)						
Scenario		Lower and Largest	Low, Larger	Benchmark	High and Smaller	Higher and, Smallest
Amount of Rooms		160	140	120	100	80
Price		50	55	60	65	70
Ind.	NPV	-2,850,797.22€	-1,986,436.30€	-1,337,629.17€	-904,375.84€	-686,676.29€
	PI	0.730	0.784	0.829	0.861	0.867

Changing Prices and Amount of Rooms (positive correlation)						
Scenario		Smallest and Lower	Smaller and Low	Benchmark	Larger and High	Largest and Higher
Amount of Rooms		80	100	120	140	160
Price		50	55	60	65	70
Ind.	NPV	-2,411,106.62€	-1,982,144.79€	-1,337,629.17€	-477,559.76€	598,063.44€
	PI	0.547	0.700	0.829	0.944	1.051

Scenario Analysis – PORTO ALEGRE

Changing Amount of Rooms						
Scenario		Smallest	Smaller	Benchmark	Larger	Largest
Amount of Rooms		80	100	120	140	160
Ind.	NPV	-431,351.54€	-46,335.42€	338,680.70€	723,696.83€	1,108,712.95€
	PI	0.915	0.988	1.037	1.072	1.098
	Total Investment	5248000	6560000	7872000	9184000	10496000

Changing Investment without Equipment per m2						
Scenarios		Cheapest	Cheaper	Benchmark	Elaborated	Expensive
Invest. Without Equip./m2		2600	2900	3200	3500	3800
Ind.	NPV	1,440,587.84€	889,634.27€	338,680.70€	-212,272.86€	-763,226.43€
	PI	1.209	1.115	1.037	0.971	0.914
	Invest/Room	54800	60200	65600	71000	76400
	Total Investment	6576000	7224000	7872000	8520000	9168000

Changing Amount of Rooms and Investment without Equipment per m2 (negative correlation)						
Scenarios		Cheapest and Largest	Cheaper and Larger	Benchmark	Elaborated and Smaller	Expensive and Smallest
Invest. Without Equip./m2		2600	2900	3200	3500	3800
Amount of Rooms		160	140	120	100	80
Ind.	NPV	2,577,922.46€	1,366,475.99€	338,680.70€	-505,463.39€	-1,165,956.29€
	PI	1.282	1.153	1.037	0.926	0.809
	Invest/Room	54800	60200	65600	71000	76400

	Total Investment	8768000	8428000	7872000	7100000	6112000
Changing Amount of Rooms and Investment without Equipment per m2 (positive correlation)						
Scenarios	Cheapest and Smallest	Cheaper and Smaller	Benchmark	Elaborated and Larger	Expensive and Largest	
Invest. Without Equip./m2	2600	2900	3200	3500	3800	
Amount of Rooms	80	100	120	140	160	
Ind.	NPV	303,253.21€	412,792.55€	338,680.70€	80,917.67€	-360,496.56€
	PI	1.062	1.062	1.037	1.003	0.966
	Invest/Room	54800	60200	65600	71000	76400
	Total Investment	4384000	6020000	7872000	9940000	12224000
Changing Annual Average Occupancy Rate						
Scenarios	MidScale Prospects	Lower Prospects	Benchmark	Higher Prospects	Optimistic	
Av. Annual Occ. Rate	68%	74%	80%	86%	92%	
Ind.	NPV	-1,011,793.64€	-336,556.47€	338,680.70€	1,013,917.87€	1,689,155.04€
	PI	0.870	0.953	1.037	1.121	1.204

Source: Results from Scenario Analysis applied to the two Benchmark Models.

EXHIBIT 15 Ibis' Prices

Ibis Prices for 2014 (four random dates within 3 months interval).

IBIS CURITIBA (Prices in €)	Jan	Apr	Jul	Oct	Annual Average
Centro Civico	44.75	44.75	44.75	46.35	45.15
Shopping	49.22	52.42	60.41	52.42	53.62
Batel	57.53	55.93	60.73	60.73	58.73
Average	50.50	51.03	55.30	53.17	52.50

IBIS PORTO ALEGRE (Prices in €)	Jan	Apr	Jul	Oct	Annual Average
Moinhos de Vento	66.8	66.8	66.8	66.8	66.8
Aeroporto	66.8	66.8	70	66.8	67.6
Average	66.8	66.8	68.4	66.8	67.2

Source: Ibis Website

EXHIBIT 16 Implementation Process

			Year 0	Year 1				Year 2				Year 3	
				T1	T2	T3	T4	T1	T2	T3	T4	T1	T2
Assessment	Market research	Find a good land/propriety											
Pre-opening	Contracting	Close contract											
	Registrations	Registry hotel											
		Construction permits											
	Construction work	Construction project											
		Construction works											
		Furniture and Machines											
		Electricity, Water, Gas, Internet											
	HRM	Job requirements assessing											
		Recruitment in Brazilian market											
		Trainee for VG culture											
Opening	Marketing	Promotion in VG site											
		Agreements for promotion in Hotel sites											
		Billboards in the airport and train station											
Control	Performance	Control financials and key indicators											
	Improvements	Spot trainee needs											
		Keep benchmarking Ibis											

Source: own assemblage

ENDNOTES

ⁱ “*Deloitte – Atlas da Hotelaria 2012*”

ⁱⁱ Professional Association of Innkeepers International at

http://www.innkeeping.org/?The_Industry

ⁱⁱⁱ InterContinental Hotel Group Website

^{iv} Accor Group Website

^v *O Índice de Desenvolvimento Humano Municipal Brasileiro* p.44

^{vi} Ranking presented by the Internet World Stats at

<http://www.internetworldstats.com/top20.htm>

^{vii} Info provided by *Independ Statistics & Analysis* from the US Energy Information

Administration at <http://www.eia.gov/countries/cab.cfm?fips=BR>

^{viii} Climate information provided at <http://www.bractaceae.org/climate.html>

^{ix} Capacity Data extracted from each Airport Webpage at

<http://www.infraero.gov.br/index.php/br/aeroportos.html>

^x Hotel Invest – Brazilian Hotel Market Overview 2011-2012