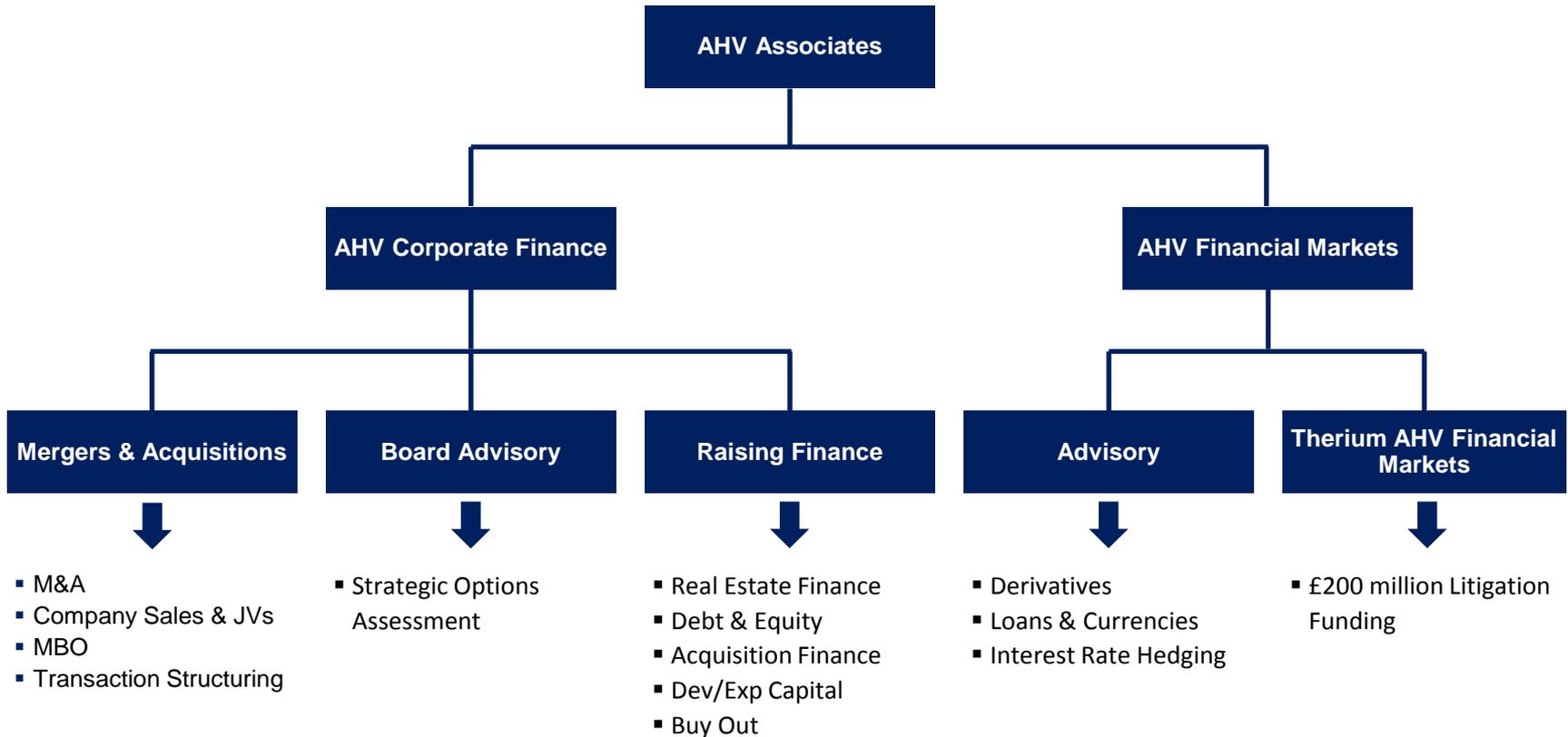


An Introduction

Founded in 2001 by Andrew Harrington and Hanif Virji, AHV Associates LLP (AHV) is an award winning boutique investment bank focused on advising private companies across a range of M&A and advisory assignments



AHV specializes in hospitality and has worked with companies who owns hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts

Recent M&A Activity in the European Hospitality Industry: Opcos and Propcos

Executive Summary

There has been a lot of M&A activity in the European hospitality industry during the last 12 months, either by European companies investing globally or by non European companies acquiring or investing in the European market

We have reviewed the deals that have occurred and have identified a few key themes that could underpin activity in the future:

- ❑ **Many hotel groups have chosen to solely focus on the operational side of their business and divest their real estate assets**
 - The cash proceeds are then reinvested to support expansion plans, or distributed to shareholders
- ❑ **Hotel groups owning real estate assets have been acquired by two acquirers at the same time**
 - One focusing on the real estate and the other on hotel management
- ❑ **Big hotel groups have focussed on acquiring other operating companies**
 - The rationale of these deals could either be geographical expansion, penetration in new hospitality sub-markets or vertical integration, among others
- ❑ **Consolidation has also occurred on a more regional basis, like the one that has taken place recently in the Nordics**
 - This enables companies to gain scale and scope to support further expansion
- ❑ **Investments in minority stakes have been a way of gaining access to closely held companies not available for outright sale**
 - The vendor wants to benefit from the investors' capital and expertise
- ❑ **Real estate owners invest in operating hotel companies which also act as platforms for new real estate acquisitions**
 - Hotel companies benefit from this type of deals by operating premises that have been owned by their real estate partners
- ❑ **Established European brands are showing interest in acquiring 100% of hotel businesses with a portfolio of leased or managed branded properties**
 - The intention often is to reflag post-completion of the deal

PropCo / OpCo Separation

On the lookout for focussed operational excellence

Recent Examples



On May 31st 2018, Accor completed the sale of a majority stake, 57.8%, in AccorInvest, the hotel real estate investment arm of the group, for €4.6 billion in cash. The company is committed to retaining at least 30% of AccorInvest for the next five years but it will eventually exit. The hotels owned by AccorInvest will be operated by AccorHotels under very-long-term contracts

The management will solely focus on accelerating the development of AccorHotels, strengthening the brand portfolio and expanding the operational capabilities. Around €2 billion was expected to be used for M&A at the time of the transaction, half of which has already been spent on Mantra



B-Aparhotels was the latest player that chose to release cash tied on four owned properties. The purpose of this strategy was to concentrate on core business, apart-hotels management, and use the proceeds to achieve its international development, expanding from 7 properties to 30 by 2022

On May 27th 2018, it was announced that Home Invest Belgium, a Belgian REIT focussed on the residential sector, will acquire BE Real Estate that owns the freehold in four aparthotel buildings in Brussels for €36m and fixed rent with 5.1% yield in a long-term lease. The acquisition is expected to be completed by the end of the year and will be financed by bank loans

PropCo / OpCo Separation

Splitting the target in two

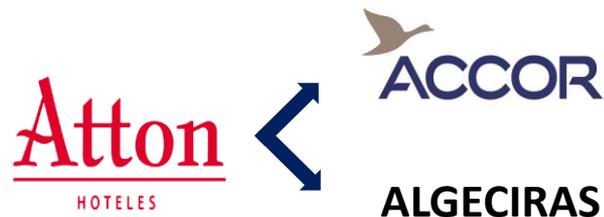
Recent Examples



This OpCo / PropCo separation concept was also reflected in one of the most innovative transactions within the hotel industry, that of Jury's Inn. Pandox came on with the role of the real estate investor, retaining 21 properties, after identifying a number of value-add opportunities in the portfolio. Fattal Group's brand, Leonardo, took the operating part for the 36 hotels in the UK and Ireland

On December 31st 2017, the consortium acquired Jurys Inn for approximately £800 million on a debt free basis. The transaction is fully financed by a new bank loan, credit facilities and a £120 million loan provided by Leonardo which will be set-off after the reorganisation, after which Pandox's share of the total acquisition price will amount to £680 million

In addition, the two acquirers already had a relationship prior to the acquisition. In 2016, Pandox acquired a portfolio of 18 hotels, most of them operating under the Leonardo brand, from Fattal and Leopard for €400 million and then signed 25 year leases with Fattal for all the hotels



The partnership of Accor and Algeciras to acquire the Chile-based Atton Hoteles resulted in the same OpCo / PropCo segregation post-completion of the deal. Accor acquired 100% of the management company and 20% of the PropCo while Algeciras bought the remaining. In addition, Accor retains a put option to sell its real estate part to Algeciras after five years

In the future, all properties will be reflagged as Pullman, Novotel, MGallery and Mercure brands

The transaction was announced on May 14th 2018. Accor will pay about €89 million in cash for the acquisition, €67 million for the OpCo and €22 million for the PropCo while Algeciras will contribute approximately €88 million for the remaining 80% of the real estate arm. The deal valuation reflects post-synergies and pipeline 2020E EV/EBITDA multiples of respectively 10x and 9x

OpCo Expansion & Consolidation

Race to scale

Recent Examples



Accor has been on an acquisition spree in the last 12 months further fuelled by the released firepower resulted from the AccorInvest spin-off. These transactions were guided by various rationales such as:

- Geographical expansion: On June 29th 2018, Accor signed a LOI with sbe aiming to accelerate its international footprint especially in the Middle East and Latin America by acquiring 50% of the target's common equity for \$125 million. In addition, Accor will invest \$194 million in a new preferred debt instrument that will be used to redeem existing preferred units. Likewise, Accor acquired Mantra Group (\$1.2 billion and 12.1x EV/EBITDA on May 31st 2018) to expand in Oceania and 50% of the South Africa based company Mantis on April 5th 2018 for an undisclosed amount. On April 30th 2018, Accor acquired Movenpick for €482 million implying 14.9x 2019E EBITDA multiple before synergies and 10x EBITDA multiple after run rate synergies and committed development pipeline
- Penetration in new sub-markets within the hospitality industry: On October 4th 2017, Accor announced that it will buy 50% stake of Orient Express for an undisclosed amount
- Operational improvement: On October 2nd 2017, Accor agreed to acquire Gekko, a major player in the business travel hotel reservation segment, for €100 million

This race for scale and diversity will also broaden the group's loyalty membership and increase bargaining power with its service providers, especially OTAs

One of the driving forces of this trend is the fact that branded hotel chains only account for approximately one-third of traditional hotel rooms globally, an indication of a relatively fragmented industry with plenty of room for consolidation

OpCo Expansion & Consolidation

Race to scale

Recent Examples



Earlier this year, on March 14th, IHG acquired a 51% stake in Regent Hotels & Resorts for \$39 million which will be paid in three equal tranches. Meanwhile, IHG has the right to purchase the remaining 49% in a phased manner from 2026 based on a trailing 12 month multiple of joint venture income. The acquisition will be funded by IHG's capital expenditure guidance of up to \$350m (gross capex) per annum into the medium term

The group intends to grow the acquired brand from 6 to 40 hotels in the future, with few of these being existing managed properties branded as InterContinental

Another remarkable M&A activity aiming for regional consolidation has been seen in the Nordics

Forenom, backed by the private equity firm CapMan, has made several acquisitions the last 18 months verifying its strategy to become Nordics' strongest corporate housing provider. Some indicative transactions are:

- ❑ On July 6th 2017, acquired Oslo Apartments SA and moved into the Norwegian market
- ❑ On February 1st 2018, Forenom agreed with SATO Group on the acquisition of HotelHome, strengthening Forenom's position particularly in Finland
- ❑ On March 1st 2018, Forenom acquired and reflagged StayAt
- ❑ By acquiring Apartments HS in April, Forenom has become a market leader in the Swedish serviced apartments covering 25% of it



Last December, Scandic Hotels has also made a bold move to establish its leading position in the region by acquiring Restel's hotel operations in Finland for \$137 million, making it the largest hotel operator in the country. Most of Restel's hotels have operated under the Cumulus brand and will all be reflagged into Scandic hotels

Inbound Investment in European Hotel Groups

Non-Europeans investing in the leading global touristic destination

Recent Examples



Real estate only hotel investment opportunities have been attracted the interest of many non-European investment groups for many years. However, this foreign interest has naturally expanded towards investing in hotel companies with operating capabilities as well

The most interesting of these transactions, which occurred in October 2017, has been Huakee's minority stake investment (33%) in Cycas with the capital to be deployed to service the company's working capital requirements and co-invest alongside institutional hotel owners, boosting its profile as a likely chosen operating partner



Another example is Minor's investment in NH Hotels, having recently increased to 44.5% with consecutive stake purchases since January 2018, with Minor planning to increase its stake over time. Minor suggests there are immediate opportunities to exploit operating performance in overlapping regions like in Portugal and Brazil. A closer linked partnership will also benefit NH in terms of gaining access to MINTS's high spending Asian guests

Real Estate Investors Entering in the Operational Side

Traditional real estate investors participate in both PropCo and OpCo in order to capitalize higher yields by being active landlords

Recent Examples



On September 26th 2017, a fund affiliated with Starwood Capital completed a \$250 million cash investment in Yotel, acquiring a 30% stake and investing in real estate, in order to help the company achieve its growth and worldwide expansion plans. Starwood has already secured Yotel sites in Edinburgh, Glasgow and Amsterdam opening in 2019



This deal, that was announced in February 2018, was Brookfield's first investment in the serviced apartment sector and the sector's largest deal, £430 million, in the UK up to date. Brookfield will acquire from SACO's previous owner, Oaktree Capital Management, the existing real estate and development pipeline along with SACO's online platform. SACO has 39 operational assets in the UK and one in Amsterdam, nine of which are freehold, while its online Airbnb style platform hosts 30,000 units worldwide. SACO's pipeline includes more than 900 rooms that will be owned freehold and flagged as Locke Aparthotels once they are completed



LRC Group, a pan-European property investment and management firm, acquired ,on February 8th 2018, 100% of Amaris from Lone Star for \$832 million implying an EV of \$2.89 billion and 5.3x pre-deal revenue multiple. Amaris will manage the hotels on behalf of LRC, which in addition to Amaris' 23 properties added seven DoubleTree by Hilton branded hotels to the portfolio recently acquired from funds managed by Oaktree Capital Management

This is another example of a property investment company moving across from more mainstream asset classes – in the case of LRC offices – into hotels due to most likely superior yields

Real Estate Investors Entering in the Operational Side

Traditional real estate investors participate in both PropCo and OpCo in order to capitalize higher yields by being active landlords

Recent Examples



Schroders' real estate business growth accelerates by acquiring earlier this year (03/05/2018) Algonquin, a pan-European hotel investor and operator with a portfolio of 43 assets and 7,500 rooms, representing €1.8 billion worth of assets, across Europe. After the completion of the deal, hotels will account for more than 12% of Schroder's AUM in real estate

Algonquin business model has been based on co-investments. In 2016, it launched the Primotel Europe fund, investing in either real estate only or both real estate and operations with Aviva Investors that was composed of 3 to 5 stars prime European city hotels

The operated hotels are primarily managed through Algonquin's own brands or franchises such as Sheraton, Marriot, Hyatt, Radisson and Sofitel



Gaw Capital Partners, acting through its European Hospitality Fund I managed by GCP Hospitality, acquired a 50% stake in Spain's leading boutique hotel brand, Hospes Hotel Group, in a joint venture with a Spanish investment company, Omega Capital. The investment is expected to accelerate the expansion of the Hospes brand in Spain and South Europe

The transaction completed on July 25th 2018, valuing the target company at \$197 million (the joint venture paid \$73 million for 50% equity stake) representing a 17.4x pre-deal EBITDA multiple

Transactions lead to reflagging

Hotel companies acquire brands in order to reflag them instead of broadening their brand portfolio

Recent Examples



On May 3rd 2018, Foncière des Régions entered into agreement with Starwood Capital Group for the acquisition of a portfolio of 14 hotels that were part of The Principal Hotel Company for \$1.1 billion

The properties, all located in the UK, had been operated under two brands (12 under Principal and 2 under De Vere). After the acquisition, 12 operating properties and one under development will be managed by IHG. In addition, the properties will be reflagged into IHG's luxury brand, Kimpton Hotel & Restaurants. This deal provides IHG the opportunity to launch its brand in the UK and increase its market share in the upscale segment in the UK



In early 2017, Accor acquired the management of 26 BHG hotels in Brazil for €60 million in order to strengthen its position in the area. All the hotels will be renovated and rebranded to Ibis, Ibis Budget, Mercure, Novotel, Mama Shelter, MGallery and Pullman by the end of 2019. There are more deals of Accor falling in this category, such as Atton acquisition in Chile which was presented before and the joint venture partnership with Rixos Hotels where Accor will own 50% of the management company. Although the main purpose of the JV has been the development and management of Rixos branded hotels and resorts worldwide, Rixos agreed to reflag 5 city-centre hotels under Accor's brands



On the other hand, companies might reflag their own hotels into their newly acquired brands. As it was mentioned earlier in this presentation, IHG bought Regent in an effort to expand its footprint in the growing \$60 billion luxury segment. In this case, some hotels currently operating under IHG brands are scheduled to be refurbished and reflagged. For example, InterContinental Hong Kong will reopen as Regent Hotel in 2021

Appendix

Recent M&A transactions

Date	Target	Acquirer(s)	Deal Type	Deal Size
Jul-17	Oslo Apartments SA	Forenom	100% Acquisition	N/A
Aug-17	Wyndham European Vacation Rental	Platinum Equity	100% Acquisition	\$1.3bn
Sep-17	Yotel	Starwood Capital	30% Acquisition	\$250m
Oct-17	Gekko Group	AccorHotels	100% Acquisition	€100m
Oct-17	Orient Express	AccorHotels	50% Acquisition	N/A
Oct-17	Cycas Hospitality	Huakee	33% Acquisition	N/A
Dec-17	Restel	Scandic Hotel Group	100% Acquisition	\$137m
Dec-17	Jurys Inn	Pandox Fattal Group	100% Acquisition	£800m
Feb-18	HotelHome	Forenom	100% Acquisition	N/A
Feb-18	SACO	Brookfield	100% Acquisition	£430m
Feb-18	Amaris Hospitality	LRC Group	100% Acquisition	\$832m
Mar-18	StayAt	Forenom	100% Acquisition	N/A
Mar-18	Regent Hotels & Resorts	IHG	51% Acquisition	\$39m
Apr-18	Resdiary	AccorHotels	100% Acquisition	N/A
Apr-18	ILG	Marriott Vacations	100% Acquisition	\$4.7bn
Apr-18	Mantis Group	AccorHotels	50% Acquisition	N/A
Apr-18	Apartment HS AB	Forenom	100% Acquisition	N/A
Apr-18	Movepick Hotels and Resorts	AccorHotels	100% Acquisition	€482m
May-18	La Quinta Holdings	Wyndham Hotels & Resorts	100% Acquisition	\$1.95bn
May-18	Algonquin	Schroders	100% Acquisition	N/A
May-18	Atton Hoteles	AccorHotels Algeciras	100% Acquisition	€177m
May-18	Be Real Estate S.A.	Home Invest Belgium	100% Acquisition	€36m
May-18	Mantra	AccorHotels	100% Acquisition	\$1.2bn
May-18	AccorInvest	Public Investment Fund (PIF) GIC Colony NorthStar Credit Agricole Assurances Amundi Private Investors	57.8% Acquisition	€4.6bn
Jun-18	Adoria	AccorHotels	100% Acquisition	N/A
Jun-18	SBE Entertainment Group	AccorHotels	50% Acquisition Preferred Debt	\$125m \$194m
Jul-18	Hospes Hotels	Gaw Capital	50% Acquisition	\$73m
Aug-18	21c Museum Hotels	AccorHotels	85% Acquisition	£39m

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