



Lisbon School
of Economics
& Management
Universidade de Lisboa

MASTERS IN FINANCE

MASTERS FINAL WORK PROJECT

**EQUITY RESEARCH:
ACCOR SA**

CATARINA WANG YE

OCTOBER 2022

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Abstract

The present Equity Research consists of the valuation of Accor SA, it contains a detailed financial analysis of the company. The report follows the format recommended by the CFA Institute and is only considered the public information available until the 18th of October 2022.

Accor is one of the world's leading hotel operators and the market leader in Europe, with total revenues of €2,204M, assets of €10,669M and a market capitalization of €7,450M. The Group has one of the most diversified and fully integrated hotel ecosystems in the industry, encompassing luxury and premium brands, midscale, and economy offerings, with a portfolio of 40 brands and 777,714 rooms in 110 countries.

The analysis results in a BUY recommendation with a target price of €32.33/share, corresponding to an upside potential of +24% against the closing price of €26.08/share on August 18th, 2022, with high-risk. The Discounted Cash Flows method was used to value Accor, since it is a mature company with stable cash flows. The main model used was Free Cash Flow to the Firm (FCFF). As a complement to the analysis, the Free Cash Flow to Equity (FCFE), Adjusted Present Value (APV), the Dividend-Discount Model (DDM) and a valuation using multiples were also performed.

The main risks to the recommendation are related to possible unfavorable changes in the geopolitical, health and economic environment. Additionally, the valuation was subject to sensitivity analysis, taking into consideration the risks that may occur and affect the company's performance.

JEL classification: G10; G32; G34.

Keywords: Equity Research; Valuation; Mergers & Acquisitions; Discounted Cash Flow; Hospitality; Accor, SA.

Resumo

A presente projeto consiste na avaliação da Accor SA, que contém uma análise financeira detalhada da empresa do mesmo. O relatório segue o formato recomendado pelo Instituto CFA e é considerado apenas informação pública disponível até ao dia 18 de outubro de 2022.

Accor é um dos principais operadores hoteleiros do mundo e líder de mercado na Europa, com receitas totais de 2.204 mil milhões de euros, ativos de 10.669 mil milhões de euros e uma capitalização de mercado de 7.450 mil milhões de euros. O Grupo possui um dos mais diversificados e totalmente integrados ecossistemas hoteleiros da indústria, abrangendo marcas de luxo e *premium*, ofertas de média escala e economia, com uma carteira de 40 marcas e 777,714 quartos em 110 países.

A análise resulta numa recomendação de COMPRA com um preço-alvo de 32.33€/ação, o que corresponde a um potencial de aumento de +24% em relação ao preço de fecho de 26.08€/ação a 18 de agosto de 2022, com alto risco. O método dos Fluxos de Caixa Descontados foi utilizado para valorizar a Accor, uma vez que é uma empresa madura com fluxos de caixa estáveis. O principal modelo utilizado foi o *Free Cash Flow to the Firm (FCFF)*. Como complemento à análise, foram também realizados o *Free Cash Flow to Equity (FCFE)*, *Adjusted Present Value (APV)*, *the Dividend-Discount Model (DDM)* e uma avaliação utilizando múltiplos.

Os principais riscos para a nossa recomendação estão relacionados com possíveis alterações desfavoráveis no ambiente geopolítico, de saúde e económico. Além disso, a avaliação foi sujeita a uma análise de sensibilidade tendo em consideração os riscos que podem ocorrer e afetar o desempenho da empresa.

Classificação JEL: G10; G32; G34.

Palavras-Chave: Equity Research; Avaliação de Empresas; Fusões e Aquisições; Fluxos de Caixa Descontados; Hotelaria; Accor, SA.

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Abbreviations

A	ADR Average Daily Rate	H	HDI Household Disposable Income
	APV Adjusted Present Value	I	IMEAT India, Middle East, Africa, and Turkey
	ASPAC Asia-Pacific which includes the South-East Asia, “Greater China” and Pacific hubs		IMF International Monetary Fund
B	BICS Bloomberg Industry Classification System	K	K Thousand(s)
	Bn Billion(s)		Kd Cost of Debt
			Ke Cost of Equity
C	CAGR Compound Annual Growth Rate	L	LFL Like for Like
	CEO Chief Executive Officer	M	M Million(s)
	CFA Chartered Financial Analyst		M&A Mergers & Acquisitions
	COP26 Climate Change Conference of the Parties	P	P/E Price-to-Earning
			PT Price Target
D	DCF Discounted Cash Flow	R	RevPAR Revenue per available room
	DDM Dividend Discount Model		Rf Risk-free rate
E	EBITDA Earnings Before Interest, Taxes, Depreciation, and Amortization		ROE Return on Equity
	ESG Environmental, Social and Governance	S	SARD Sum of Absolute Rank Differences
	EV Enterprise Value	U	UNWTO World Tourism Organization
F	FCFE Free Cash Flow to Equity	V	VS Versus
	FCFF Free Cash Flow to Firm	W	WACC Weighted Average Cost of Capital
	FRED Federal Reserve Economic Data	Y	YE Year End
	F&B Food & Beverage		YOY Year Over Year
G	GDP Gross Domestic Product		

1. Research Snapshot

Figure 2 - 2Year share price



Source: Author's analysis

We issue a **BUY** recommendation for Accor SA (AC FP) with a **PT of €32.33/share for 2023YE** using the DCF(FCFF) model, implying a **+24% upside potential** against the **closing price of €26.08/share** on August 18th, 2022, with **high-risk** (Figure 1 and Figure 3).

Accor is a **leading global hospitality company**. Besides, it includes a huge diversity and **fully integrated hospitality ecosystems** in the industry. Despite a disrupted start to the year due to general health restrictions, the year 2021 showed a significant improvement in Accor's business compared to the previous year in which the industry was negatively impacted by the **COVID-19 pandemic** as the hospitality demand has declined sharply due to lockdowns, travel restrictions and social distancing. However, the beginning of the **war in Ukraine**, in February 2022, will expect to affect the tourism and travel sector, slowing down the full recovery of the sector.

By performing the forecast from 2022F to 2027F, we are assuming that both the pandemic, with successful vaccination, and the war in Ukraine are under control. Accor is expected to recover RevPAR in all segments to pre-pandemic values in 2023, with an average increase of 9% CAGR 2022YE-2027YE, this indicator is a key driver for the group.

Strategy

To achieve its shift to an **Asset-Light model**, Accor is aiming at a transformation initiative (Figure 4). The company is engaged in an industry that has seen substantial change, has been fiercely competitive for a long time, and which is recovering from a global health crisis. The long-term strategy of the group has been refocused on the **hotel management and franchise segments**. Its goal is to adapt its organizational and operational model to its business model.

Figure 1 - Summary

Price Target	32.33€
Close Price (Aug. 18 th)	26.08€
Recommendation	BUY
Upside Potential	24%
Risk level	HIGH
Market cap	€7,450M
Shares outstanding	261,856,268

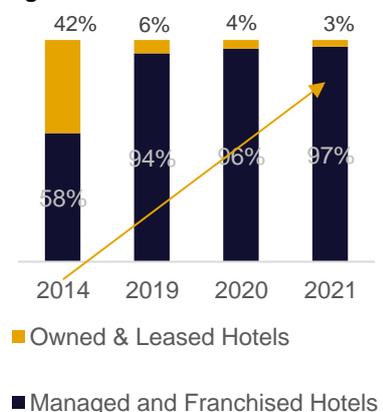
Source: Author's analysis

Figure 3 – Accor's Price Target



Source: Author's analysis

Figure 4 - O&L and M&F Hotels



Source: Accor's 2021 Universal Registration Document

2. Business Description

The Company

Accor is a **world leading group in augmented hospitality**, headquartered in France, recognized by its most diversified and **best performing integrated hospitality ecosystem**. It fosters human connections, empowerment, and meaningful impact. By supporting innovation and developing new experiences, it uses its special skills and solutions to improve performance and value for its business partners. It has total **assets of €10,669M**, and a **market capitalization of €7,450M** (Figure 5).

The Accor hospitality brand portfolio is one of the world leaders, with **40 brands**, including **luxury & upscale (27%)**, **midscale (33%)**, and **economic (40%)** segments (Figure 6), private rentals and hotel stays, **5,298 hotels**, where **97% are managed and franchised hotels** and **3% owned & leased hotels**, and **777,714 rooms** (6% CAGR 2017-2021) in 110 countries, **located mainly in Europe** that represent 44% of the total number of rooms (Figure 7).

Beyond accommodations, Accor has unlocked experiences and possibilities not only in travel, to offer lifestyle experiences such as food & beverage, nightlife, wellbeing, and coworking brands, with various activities categorized as **Live, Work, Play**, and, lastly, **Business accelerators**. This brand architecture mirrors Accor's aim to bring **Augmented Hospitality to life** (Appendix 1).

The History of Company

In **1967**, Paul Dubrule and Gérard Pélisson opened the **first Novotel hotel** in Lille Lesquin. Later, the Ibis brand was launched in 1974. From 1980 to 1990, Accor entered the luxury sector with the acquisition of the iconic Sofitel chain, and with the acquisition of Jacques Borel International, Accor entered the F&B segment.

Since 2010, Accor has made **several strategic acquisitions to build up a vast portfolio** of brands covering all customers' needs: well-being, co-working, restaurants, nightlife, and others. Accor confirmed its **global leadership in the world of luxury segment** with the acquisition of Fairmont, Raffles, and Swissôtel, and a partnership with Banyan Tree.

In 2020, Accor provided a high level of service to its guests and partners with **ALL – Accor Live Limitless loyalty program**. Accor strengthened its positioning in lifestyle hotels with the acquisition of SBE and the creation of Ennismore. A year later, the new Ennismore entity became the leader in lifestyle hotels and the player boasting the **fastest growth worldwide**. Furthermore, Accor became an official partner of the Paris 2024 Olympic and Paralympic Games.

Financial Highlights

For 2021YE, Accor reached a total of **€2,204M in revenues** (+34%YOY). As a result, a **net profit of €85K** (+104%YOY) was registered, regarding the loss of €1,988M in 2020YE.

Business segments, Revenues and Geographical Information

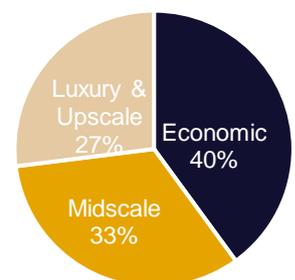
Accor is organized into **two main segments: "Hotel Services" and "Hotel Asset & Other"**. And it has a **"Holding & Intercos"** section that is presented separately,

Figure 5 - Accor Overview



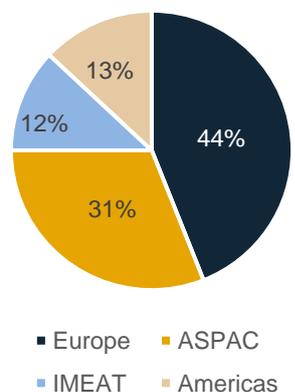
Source: Accor's 2021 Universal Registration Document

Figure 6 - Rooms by segments



Source: Accor's 2021 Universal Registration Document

Figure 7 - Rooms by region



Source: Accor's 2021 Universal Registration Document

which represents the cost of the central support functions (governance, finance, communications, human resources, legal, etc.) (Appendix 2).

Hotel Services

In 2021YE, **Hotel Services segment** represents **72% of total revenue**, includes fees from **Management & Franchise (M&F)** and **Services to Owners**, the latter comprises the various services provided by the sales, marketing, distribution activities and loyalty program. **Hotel Services segment** generated **€1,582M** in revenue (+36%YOY) but still 46% down compared with pre-pandemic levels (Figure 8). This gain was due to the rapid recovery of business from the second half of the year.

Revenue in the **Management & Franchise** remains down 51% LFL vs 2019, it reached **€518M** (+74%YOY) in 2021YE, with regional performances correlated to health crisis developments in the countries considered. The performance of M&F segment is presented in four different geographical regions, them being **Europe** (45% of M&F revenue), **ASPAC**, covers Asia-Pacific which includes the Southeast Asia, “Greater China” and Pacific hubs, (19% of M&F revenue), **Americas**, includes the Central and North America, Caribbean and South America hubs, (21% of M&F revenue), and **IMEAT**, covers India, Middle East, Africa and Turkey (15% of M&F revenue) (Figure 9).

Revenue in **Services to Owners** amounted to **€1,064M** (+25%YOY) although still 43% below LFL vs 2019 (Figure 10).

Hotel Assets & Other

Hotel Assets & Other segment represents **28% of total revenue** in 2021YE. It corresponds to the hotel owner-operator business (owned and leased hotels), represented 117 hotels and 23,309 rooms, comprising accommodation and F&B sales to guests as well as management of the asset portfolio (hotel design, construction, refurbishment, and maintenance activities). Since early 2021, the new activities developed by the Group, mainly through external growth transactions such as digital services, private luxury home rentals, digital sales, hotel reservation services and concierge services. Revenue in the **Hotels Assets & Other** amounted to **€633M** in 2021YE (+29%YOY | -49% LFL vs 2019) (Figure 8).

In 2021YE, **Owned and leased hotels** revenue reached **€511M** (+31%YOY) (Figure 10), this segment was mainly driven by Asia-Pacific where business benefited from a recovery in the first half and at the end of 2021, but still down 53% compared to 2019YE since activities that are **directly linked to travel** such as private home rentals were hit hard by the crisis. However, **digital activities** were **much less affected**, such as digital services provided by D-EDGE. Therefore, the revenues from “**new activities**” have increased to **€122M** (+22%YOY | -23% LFL vs 2019).

Drivers of Profitability

Occupancy Rate

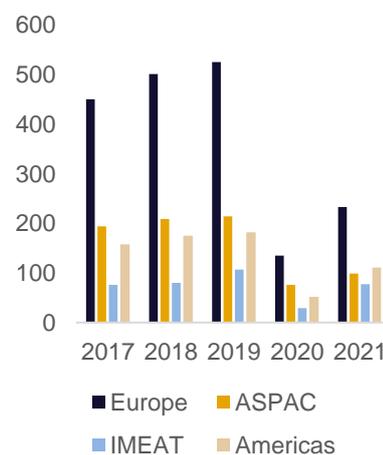
The occupancy rate provides the information about the demand for hotel services and measures the **utilization of a hotel's capacity**. It indicates the number of rooms occupied at a given time compared to the total number of rooms available at that time. Since the beginning of 2020, the spread of the COVID-19 virus and the measures taken by the government to slow its spread (especially travel bans, border closures and lockdowns) have severely impacted the tourism and hospitality

Figure 8 – Revenue by segment (€M)



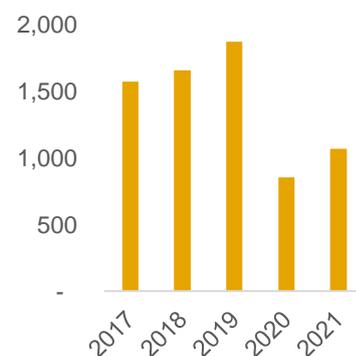
Source: Accor's 2021 Universal Registration Document

Figure 9 – Hotel Services segment: M&F revenue by region (€M)



Source: Accor's 2021 Universal Registration Document

Figure 10 – Hotel Services segment: Services to Owners (€M)



Source: Accor's 2021 Universal Registration Document

industries. In 2021, the activity in this sector continued to be affected by the pandemic, although a positive trend was observed between the first and second half of the year due to efforts to contain the spread of the pandemic and the easing of regionally differentiated restrictions. The group occupancy rate increased steadily throughout the year, reaching **43%(+37%YOY)**. At the height of the crisis, in 2020, it was 31% (-54%YOY) (Figure 11).

Average Daily Rate (ADR)

It reflects the **average price that customers are paying for hotel rooms** in a given time period. Which is dependent on the segments of the chain scale in which the hotels are categorized and the region. Being the **American** region with the highest ADR reaching 96€ in 2021YE (-9%YOY | -34% LFL vs 2019), however steadily declining. While, in the **Europe** and **IMEAT** regions, achieved ADR improvement of 5%YOY and 3%YOY, respectively. In group terms, on average ADR was down 1%YOY, **standing at €83**, due to the pandemic, the group ADR is still down -22% compared to 2019 (Figure 12).

Revenue per Available Room (RevPAR)

The **revenue generated per available room** is the most prominent aspect which drives the profitability in the hospitality industry. This can be read as a combination of the occupancy rate and the ADR. Accor RevPAR dropped 46% LFL vs 2019, due to the impact of health measures linked to the resurgence in the COVID-19 pandemic, despite the sharp improvement in business from April 2021. Currently, vaccination and the progressive elimination of sanitary restrictions are improving the overall performance indicators.

In **Europe**, RevPAR is at -49% LFL vs pre-pandemic values, but with the strength of demand from domestic leisure tourism, a recovery in demand can be seen from the summer onwards, with RevPAR growing 39%YOY.

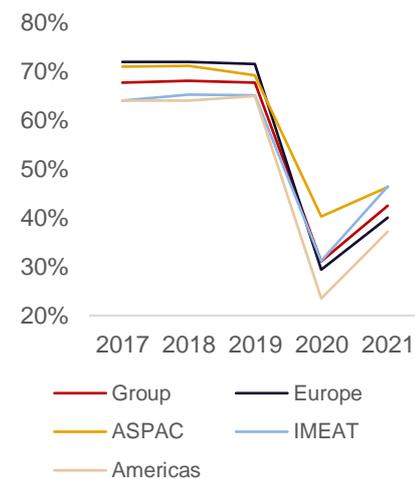
The **ASPAC** region enjoyed a sequential improvement in RevPAR (+15%YOY), following a third quarter hit by tighter Covid restrictions. In China, the recovery in RevPAR was more mixed, affected by the resurgence of COVID-19 cases and the enforcement of a strict zero Covid policy. In **Americas**, the improvement in RevPAR was also notable (+43%YOY), compared to 2019, RevPAR showed a 62% decline. The **IMEAT** region recorded RevPAR with a growth of more than 50% in 2021YE (-42% LFL vs 2019) (Figure 13).

Strategy

Accor enhances the growth of **Asset-Light model** in order to grow network and enable greater exposure to luxury and lifestyle brands. With this strategy, Accor is consolidating **leading positions** in the geographies and market segments in which it operates, accelerating its expansion in high growth areas such as China, thanks to Huazhu, and specifically targeting the US market through the **acquisition** of the right brand and market segment.

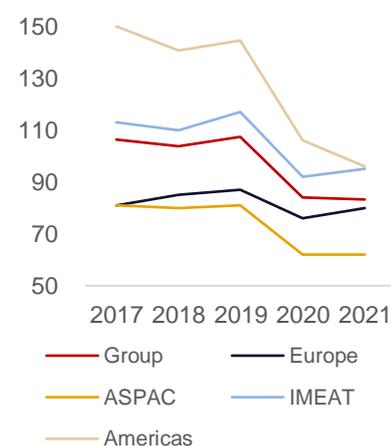
In addition, Accor has a strong and distinctive **loyalty program** that aims to **attract** and **retain**, considering the latest trends and aiming to create the experiences of tomorrow. Furthermore, Accor increasingly promotes **positive hospitality**, trying to have an impact both locally and globally through the **Planet 21 sustainable development program** and the Accor Heartist Solidarity donation fund, by preserving natural resources and biodiversity, local communities, and promoting local culture, goods, and heritage.

Figure 11 - Occupancy rate (%)



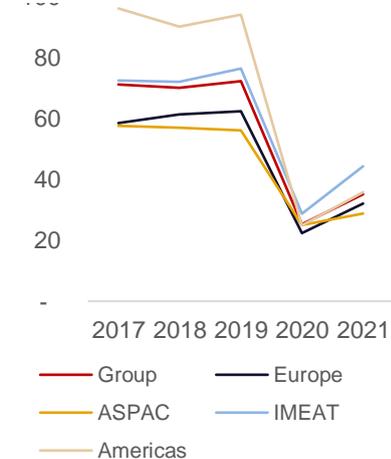
Source: Accor's 2021 Universal Registration Document

Figure 12 - ADR (€)



Source: Accor's 2021 Universal Registration Document

Figure 13 - RevPAR (€)



Source: Accor's 2021 Universal Registration Document

Shareholder structure

As of 31 December 2021, Accor's share capital consists of **261,856,268 shares** of €3 each, each fully paid up. The main shareholder of Accor SA is **Jin Jiang, holding 13.0%** of the shares, corresponding to 16.9% of the voting rights. **Qatar Investment Authority (QIA)** and **Kingdom Holding Company (KHC)** became shareholders as part of the acquisition of FRHI Group in July 2016, holding **11.3%** and **6.3%** of the company's share capital, respectively, with 17.3% and 9.6% of voting rights. **Harris Associates** owns **9.0%** of the share capital and 6.9% of the voting rights. Finally, **Huazhu** holds **4.7%** of the share capital and 3.6% of the voting rights (Figure 14).

Dividend Policy

Due to the COVID-19 crisis, the Board of Directors decided **not to propose a dividend to its shareholders for 2019, 2020 and 2021** (Figure 15). Currently, Accor is working to ensure a return to profitability, benefiting from the recovery in activity and the positive impact of its cost-saving plan. Accor aims to reset periodic dividend payments in accordance with its historical dividend policy, with a payout ratio of 50%. In addition, Accor will continue to work to restore its pre-crisis credit profile and may consider adding additional earnings on top of its normal dividend, provided that goal is achieved.

3. Management and Corporate Governance

Governance Model

According to the **Anglo-Saxon corporate governance model**, which Accor follows, Accor is governed by a **board of directors** consisting of **twelve members**, including two employee representatives, **Mrs. Christine Serre** and **Mrs. Iliane Dumas** (Figure 16).

Since 2013, the roles of **Chairman and Chief Executive Officer** has been represented by **Mr. Sébastien Bazin**, allowing the company to be more flexible in terms of leadership and management, while establishing a direct relationship between the board and the shareholders, for a statutory 3-year term.

The current position of **Senior Independent Director** is held by **Mrs. Iris Knobloch**. In particular, the presence of independent senior directors ensures a balance of power. Given the diversity of the board, the complementary technical knowledge and expertise of board members in finance, digital, marketing, luxury and even hospitality allow the board to adequately identify and understand the challenges faced by the activities carried out by the company in order to understand and facilitate more sustainable development.

The Board of Directors

Between the twelve members of the Board of Directors, there are **five different nationalities, six independent directors** and **five women**, that defines the strategy, monitors execution, analyses all issues related to effective operation, and makes decisions on all topics concerning the company.

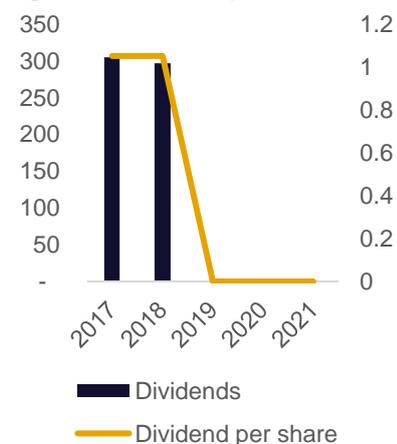
The Board of Directors also handles all issues under the authority of the relevant **laws and regulations**, about the approval of the annual budget, which includes the annual financing plan and business plan presented by the Chairman and CEO. At least once a year, the Board undertakes the review and approval of all strategic objectives.

Figure 14 - Shareholding Structure

Shareholding Structure	
Floating (of which Harris Associates: 9.0%)	62.0%
Jin Jiang	13.0%
QIA	11.3%
KHC	6.3%
Huazhu	4.7%
Founders & Directors	1.2%
Employees	1.5%

Source: Accor's 2021 Universal Registration Document

Figure 15 – Dividend per Share



Source: Accor's 2021 Universal Registration Document

Figure 16 – Composition Board of Directors

	(1)	(2)	(3)	(4)
Sébastien Bazin				
Christine Serre				
Iliane Dumas			👤	
Iris Knobloch	👤	👤	👤	👤
Sophie Gasperment	👤		👤	
Qionger Jiang				👤
Bruno Pavlovsky	👤		👤	
Nicolas Sarkozy				👤
Isabelle Simon	👤		👤	
Sheikh Al-Thani				👤
Aziz Fakhroo	👤	👤	👤	
Sarmad Zok		👤	👤	👤

Source: Accor's 2021 Universal Registration Document

There are **four standing committees of the Board of Directors**:

(1) The **Audit, Compliance and Risk Committee** (95% attendance rate) is composed of **five directors**, of which **four are independent directors**. It is responsible for ensuring that the accounting principles used in the **preparation of the financial statements** are appropriate and consistently complied with from one period to the next. Its mandate also requires that verification of internal reporting and control processes provide sufficient assurance regarding the accuracy and completeness of financial data and the management of the group's risk exposure.

(2) The **Commitments Committee** (100% attendance rate) is composed of **three directors**, of which **one is independent director**. It refers to meetings that may be called at any time, in writing or verbally, by the Chairman and Chief Executive Officer. As a result, meetings of the Board of Directors allow advice on a variety of issues, including decisions on **mergers, demergers, or transfers of assets**, as well as any changes to the Company's corporate purpose, whenever any commitments or transactions for which the Chairman and CEO must first obtain the approval of the Board of Directors.

(3) The **Appointments, Compensation & CSR Committee** (94% attendance rate) is composed of **seven directors**, of which **four are independent directors**. It presents as its main functions the preparation of changes to the composition of the company's management structures, as well as decisions for the Board of Directors regarding the **remuneration of executive officers** and the policy for awarding **long-term incentive devices**. In addition, it supervises compliance with the rules of good corporate governance and the preparation of decisions for the Board of Directors regarding **environmental policy** and **social responsibility**.

(4) The **International Strategy Committee** (80% attendance rate) is composed of **five directors**, of which **three are independent directors**. It organizes Board meetings to advise on **international strategic objectives**, particularly regarding strategic priorities for international hotel development and geographic distribution of operations. The meetings are focused on geopolitical concerns and risks, monitoring the health crisis and its consequences for the company, leveraging projects and partnerships on a global level.

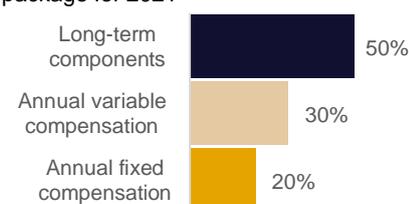
The Executive Compensation

The Board of Directors, acting on the recommendation of the **Appointments, Compensation & CSR Committee**, defines the compensation policy for the Chairman and CEO. The compensation is defined according to multiple goals that he must achieve and follow.

The **fixed annual compensation** (Figure 17) is based on the **experience** and **responsibilities** of the Chairman and CEO, as well as his **market practices**. In 2021, **Sébastien Bazin's gross annual fixed compensation is €950,000**, which has not changed since January 1, 2016.

The **annual variable compensation** depends on the contribution of the Chairman and CEO to ensure the success of the company, particularly regarding his financial and **extra-financial performance**, which is dependent on performance related to the **quantitative** and **qualitative objectives** (for 80% and 20%, respectively) set by the Board of Directors. The targets are in function of the achievement rate, each quantitative target triggers the payment of between 0% and 160% of the share of variable compensation and each qualitative target between 0% and 120%.

Figure 17 - Overall structure of the Chairman and CEO compensation package for 2021



Source: Accor's 2021 Universal Registration Document

In 2021YE, the Board of Directors set the **variable compensation** for the Chairman and CEO at **1,420,208€**, distributed as **1,120,208€ for quantitative objectives** and **300,000€ for qualitative objectives** (for which the overall achievement rate was 112% and 120%, respectively).

Respectively to the **long-term components**, which correspond to **performance shares**, are subject to the fulfillment of performance conditions decided by the Board of Directors. The grants represent a maximum of 250% of the fixed annual compensation, as determined by the Board of Directors.

Sustainability and ESG metrics

Since 2011, Accor has been promoting **Planet 21**, a global sustainability program, which has currently made incredible progress in key goals such as **reducing greenhouse gas emissions, food waste and plastic waste** (Figure 18).

The year 2021 was the year of acceleration, Accor was recognized for its lead in its sustainability initiatives, winning the Marie Claire Sustainability Award for "**Best Sustainable Hotel.**"

Accor, as a member of the Sustainable Hospitality Alliance, announced a new Pathway to Positive Networked Hospitality, an initiative supported by the World Travel & Tourism Council. The Conference of the Parties on **Climate Change (COP26)** saw Accor commit to **removal single-use plastic for guests by the end of 2022** and to **achieve zero net emissions by 2050**, the first international hotel group to do so.

Another key project focuses on strengthening efforts to promote **gender quality**, by building new partnerships such as through the Fondation des Femmes, Accor has committed to support actions in favor of women's freedom and rights and against violence against women.

In a positive hospitality, the topics covered were focused on a follow-up of the missions conducted by the ALL Heartist Fund, the issuance of a Sustainability Bond in the amount of 700 million euros and on the creation of an Ennismore lifestyle platform.

According to non-financial organizations the Accor **ESG Risk Rating** corresponds to **18.3**, meaning **low risk**.

4. Industry Overview and Competitive Positioning

Economic Outlook

GDP

From 2017 to 2019, the global economy had a deceleration in growth, registering an **average annual growth of 3.40%** (Figure 19), this decrease can be explained by the uncertainty of the UK's withdrawal from Europe, the increase in trade protectionism worldwide, and the persistent trade tensions caused by China and the US.

In 2020, the world GDP had a dramatic change of **-3.1%YOY**, recording an historic minimum, the **COVID-19 pandemic** caused a sharp drop in economic activity, due to the lockdowns implemented around the world, inciting unemployment, decreasing discretionary spending, and causing business closures.

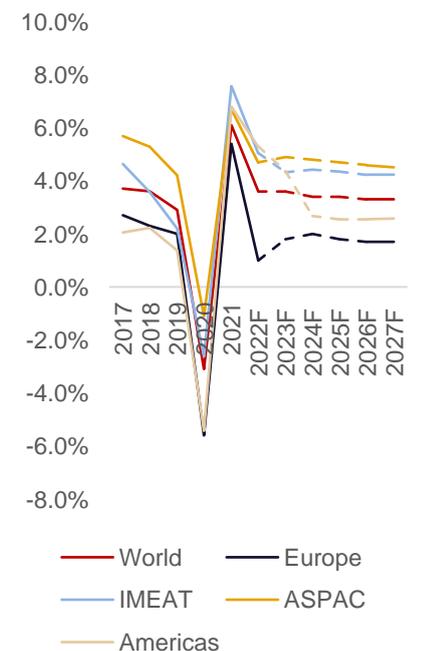
In 2021, it was marked by recovery from the crisis, with the reopening of economies, with the **vaccines against COVID-19** being key to exiting the health and economic

Figure 18 - Sustainability is part of Accor's DNA



Source: Accor's 2021 Universal Registration Document

Figure 19 - Average Real GDP Growth (annual percentage change)



Source: IMF (2022)

crisis brought by the pandemic, since they allow tourism to partially recover and thus allow a boost in the economic activity, especially in countries that are highly dependent on tourism.

Whereby the **recorded world GDP had a growth of 6.1%YOY** and faced positive growth in all regions belonging to Accor's segments, with real GDP growth of 5.4%, 6.7%, 7.6% and 6.8% for the regions of Europe, ASPAC, IMEAT, and the Americas, respectively.

In the forecast years, the global economy is expected to slow down again, with global real GDP decreasing from 3.6% in 2022YE to 3.3%YOY in 2027YE.

Inflation

In 2021, the inflation increased in advanced and some emerging market economies, recording a **world inflation growth of 4.7%YOY** (Figure 20). As restrictions were eased and economies were opening, demand accelerated, while supply was slower to respond. The increase in demand resulted in an increase in prices of key commodities such as oil and metals, food prices increased in emerging markets, tensions along the supply chains, and a sharp increase in shipping costs.

Furthermore, employment rate continues below pre-pandemic levels in many economies, forcing difficult choices on policymakers balancing the need to support the recovery, while reassuring price stability and fiscal sustainability and improving the prospects for sustainable and equitable growth.

However, currently, the inflation is suffering from a sharp rise due to the onset of the **Russia-Ukraine war**, with world **inflation expected to be 7.4%YOY** by 2022YE, mainly reflecting the impact in the Europe region, achieving 7.9%YOY inflation growth.

Looking ahead, inflation is likely to go back to pre-pandemic and pre-war levels, although with great uncertainty, it is expected to register in 2023YE, world inflation of 4.8%YOY and in 2027YE of 3.2%YOY.

Household Disposable Income

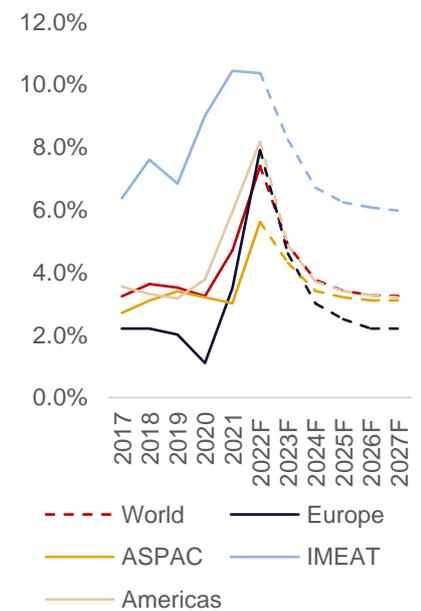
The annual per capita growth rate of Household Disposable Income (HDI) tends to **resemble GDP in the long run**, because household income represents a considerable share of the total income produced by the economy. However, when shorter time periods are considered, such as during periods of economic recession, they may differ.

Due to the pandemic of COVID-19, this can be seen throughout 2020, with government support measures leading to HDI exceeding GDP in most countries, with the gap between them being the largest recorded in 2Q2020 (Figure 21). In addition, governments have reduced the number of transfer payments associated with COVID-19 during the last two quarters of the year, which explains the decline seen during this time period.

World Population

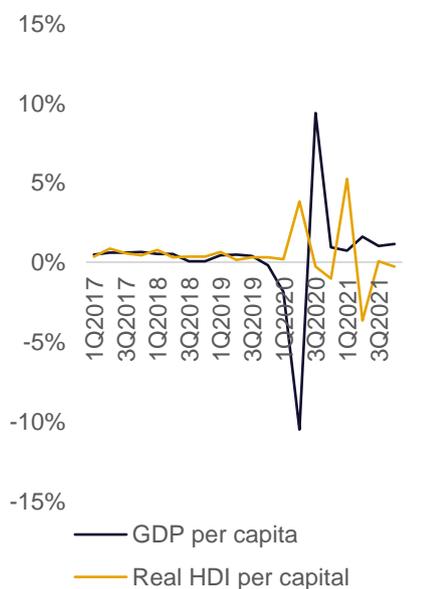
The world population reached **7,875 million (+1.03% YOY)** in 2021 and is expected to reach 7,954 million (+1.00% YOY) in 2022. The world population increased at a CAGR of 1.06% between 2017 and 2021 and it is expected to grow at a CAGR of 0.94% between 2022 and 2027, with the IMEAT region leading the way with a CAGR of +2.34% from 2022 to 2027, followed by the Americas (+0.87% CAGR 2022-2027)

Figure 20 - Inflation rate, average consumer prices (annual percent change)



Source: IMF (2022)

Figure 21 - GDP per capita and real HDI per capita (percentage change)



Source: OECD (2022)

and ASPAC (+0.69% CAGR 2022-2027). However, in **Europe**, a **CAGR decrease of -0.05% is expected from 2022 to 2027** (Figure 22).

Global Corporate Profit

During the pandemic, company profits are showing lower than expected figures for the period. As an important driver for business travel, these profits are an excellent indicator of **how much revenue the industry can generate in the short term**.

The CAGR has fluctuated over the years showing low levels each time a crisis breaks out, such as the 2008 financial crisis, which was felt immediately in the US (-19.51%), and the COVID-19 pandemic (-11.00% in the US for 2020YE) (Figure 23). On the other hand, it is also important to note that there has been an overall positive trend since 2001 and that immediately **after each crisis**, the **CAGR appears to be extremely high in the short term**, as was evidenced in 2009-2010 and as will be expected in 2021-2022.

Tourism

Tourism has a fundamental role in the global economy, through the creation of job opportunities to tax revenues, among others. It was one of the industries most affected by the COVID-19 crisis and the resulting uncertainties.

The global industry is characterized by being extremely **dependent on economic and financial market fluctuations**, namely inflation, recessions, credit availability, currency changes, and any other changes that can have a significant impact on revenues and income. It is usually one of the first industries to feel the effects of an economic crisis and pandemics, due to lockdown and all the restrictions on travel, which affected domestic and international mobility.

In 2021, **international tourist arrivals** to Europe had the fastest **recovery with an increase of 19%YOY**, followed by the Americas region (+18%YOY) and finally the IMEAT region with a slight increase of 2%YOY, this recovery is mainly due to the increase in the vaccination rate and the easing of travel restrictions. However, in the ASPAC region, the international tourist arrivals continue to drop from 65%YOY in 2021(Figure 24), as there were stricter policies of restrictions regarding COVID-19, and quarantine is still present in many countries.

In general terms, the continued political support of governments, strong international support for low-income countries, and successful implementation of vaccination are key to ensuring a full and lasting global recovery.

World Hotels Demand

The **COVID-19 pandemic has negatively affected worldwide hotels demand**. In 2021YE, the industry revenue remains down **-43.4%LFL compared with 2019YE**. (Figure 25). The industry revenue is projected to reach €311Bn in 2022 (61.7%YOY) and it is expected to grow at a 6.8%CAGR during 2022F-2026F.

Hotels demand fluctuates daily since there are several factors that can affect it, such as:

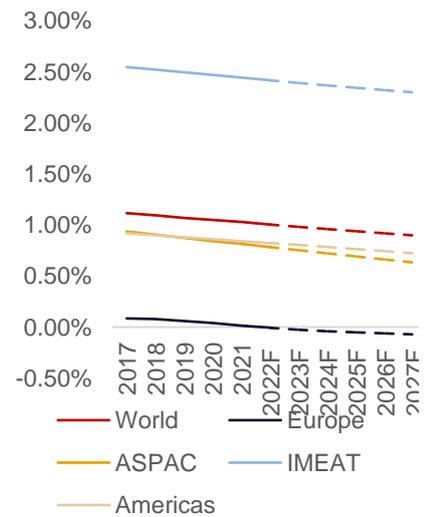
Events

Sports, music, technology and many other events and conferences held in the hotel area increase international and domestic mobility.

Seasonality

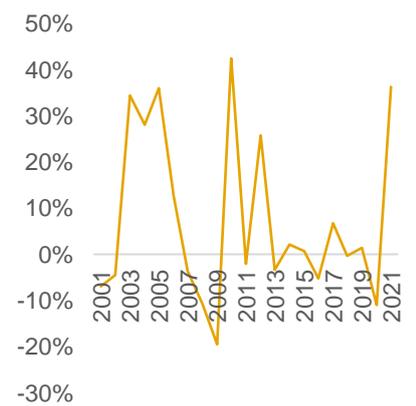
The lodging industry is operated in annual cycles. Throughout the year, hospitality occupancy rates vary due to two seasonality aspects: **Climate**, where seaside destinations are marked by most sales being made in the summer, and **Institutional**

Figure 22 - World Population (annual percentage change)



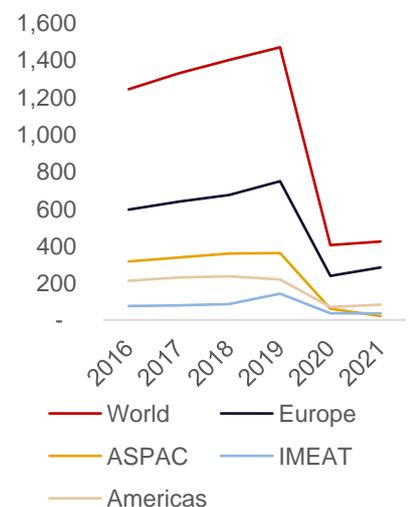
Source: World Population Prospects 2019, United Nations (2022)

Figure 23 – Corporate profits before tax (annual percent change)



Source: FRED (2022)

Figure 24 - Global Arrivals per year (Millions)



Source: UNWTO (2022)

factors, which result from decisions made at national level, school calendar and holidays.

Economic Conditions

The lodging industry is cyclical and generally follows, on a lagged basis, the overall economy. GDP growth, business investment, corporate profits, employment growth, and purchase power are economic trends that have an impact on the lodging demand. As mentioned, economic conditions are slowly improving which means that the demand is expected to pick up.

Hotels benefit from higher occupancy rates when the economy is growing, and the foreign tourist market is expanding. On the contrary, in periods of recession and low tourism interest, the occupancy rates will be low (e.g.: During the peak of the pandemic) (Figure 26).

Domestic and international travel

According to Tourism Economics, currently, domestic guest nights have been surpassing international travel. In 2021, 88% of guests' nights worldwide were attributed to domestic stays, and from 2022 onwards this trend is expected to remain high compared to pre-pandemic levels. Nevertheless, with the recent ease of international restrictions and higher vaccination rates, there has been an increase in traveler confidence, which has allowed for higher international mobility. However, global international arrivals are only expected to fully recover by 2024 or later (Figure 27).

Regarding business travel, although there has been an increase in the events and meetings being held since the pandemic, it is recovering at a slower pace when compared to leisure travel, since people got used to home office and online business meetings. Domestic business travel is recovering faster, while international business travel is only expected to return to pre-Covid levels in 2026.

Safety & Security

Terrorism attacks (e.g.: Paris attacks 2015) and natural catastrophes, negatively impact the occupancy rates in hotels. Nowadays, countries with higher vaccination rates may be considered more attractive to travel, which can positively impact the occupancy rates. Also, to regain the confidence of guests, hotels should provide "Safe stay" programs that allow on-site medical care, temperature checks, and hygiene products.

Other relevant factors impacting demand are historical heritage, the way government and public authorities promote tourism, location (i.e.: proximity to major tourist destinations), airport/railway infrastructures and cruise ports, amongst others.

World Hotel Supply

Supply is affected by the availability of capital and interest rates. Considering that hotels are not a flexible asset, the sizable investments, the long periods of time it takes to get a license to build a hotel, and the difficulty it takes to find a location for it, **supply generally remains stable**.

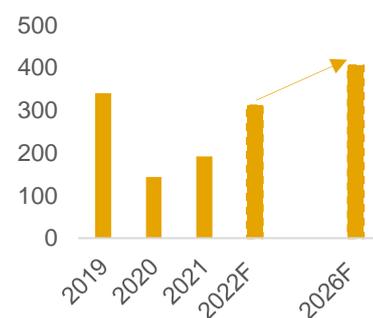
According to Statista, the global hotel industry recorded 184,299 hotels worldwide in 2018, a **growth of 0.8% CAGR during 2008 to 2018** (Figure 28).

Competitive Position

Peers Identification

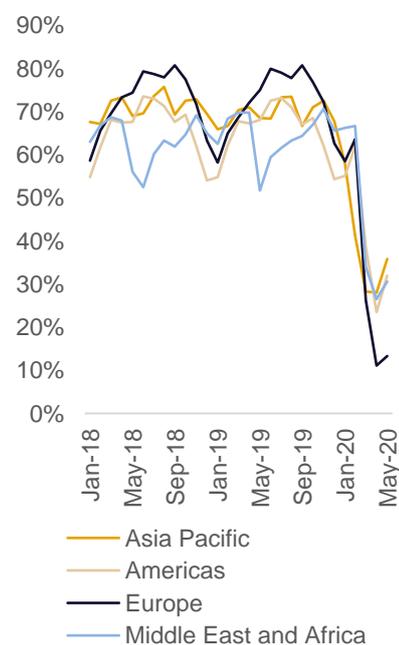
The **Sum of Absolute Rank Differences (SARD) approach** was used to identify Accor's industry peers. According to the CFA Institute, the "(...) SARD approach produces substantially more accurate valuation estimates than the traditional industry classification approach" (Appendix 25).

Figure 25 - Hotel Industry Revenue (€Bn)



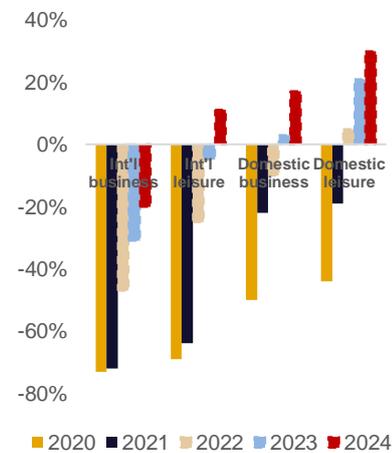
Source: Statista (2022)

Figure 26 - Monthly average occupancy rates worldwide from 2018 to 2020, by region



Source: Statista (2021)

Figure 27 - Global travel spend by segment (% difference from 2019 levels)



Source: Tourism Economics

Through the **Bloomberg Industry Classification System (BICS)**, a larger group of companies was selected from a compilation of 30 companies, along with the variables used in the SARD, being **Market Capitalization** as the measure of size, **ROE** as a substitute for profitability, **Debt to EBITDA** as surrogate for risk, **EPS** and **EBIT Margin**. The companies were ranked according to the lowest SARD, with a lower sum meaning a potential peer that can be seen as similar for a market-based evaluation.

Additionally, including a size criterion where the market capitalization would be in the range of €5Bn to €10Bn, this approach resulted in a group including six companies: **Choice Hotels International In, Wyndham Hotels & Resorts Inc, Whitbread PLC, Marriott Vacations Worldwide Corp, Hilton Grand Vacations Inc, and Hyatt Hotels Corp** (Figure 29).

Peers Strategy

The hotel industry is a **highly competitive industry**, where existing hotel companies need to apply various strategies to strengthen their position in the market. As such, hotels will continue to prioritize long-term growth despite the environment of increasing uncertainty and competition, which has been accelerated by the global pandemic.

Market players employ comparable tactics, such as continued investments in new technologies, expanding the network of relationships with major online travel agents and improving loyalty programs. While the liquidity and financial flexibility of hotels remains an important issue, many of these companies have adopted the strategy of expanding into rapidly growing areas, such as China, always with the aim of offering a wide range of options to meet customer needs and capture profitable market opportunities. Another issue is about sustainability, in which hotels must engage in programs of reducing environmental impact through green practices.

SWOT Analysis

Figure 30 – SWOT Analysis

Strengths

Global presence and the **vast portfolio** allow Accor to enjoy the benefit of **economics of scale**. It offers unparalleled collection of brands to meet customers' various needs.

Database of guests: Accor has a member reward program to retain customers and improve brand loyalty.

Utilization of technology: wallet-free experience, well-developed and engaged social media to attract customers and retain current guests.

Acquisition: M&A activities to increase market share and brand value.

Weaknesses

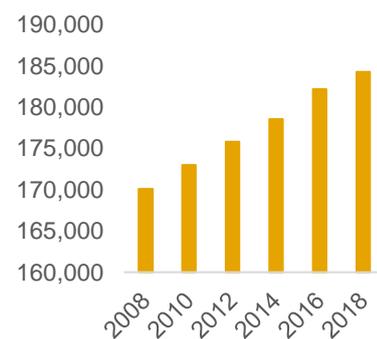
Difficulties in differentiation: the products and services in the market are similar and comparable, it is hard to do further segmentation in the matured traditional hospitality market.

Labour intensive: services are inseparable from the employees, so the job satisfaction is linked to customer perceptions of service quality performance.

High turnover may result in a decrease in service quality.

Seasonality of the hotel business and dependence on tourism.

Figure 28 - Number of hotels worldwide from 2008 to 2018



Source: Statista (2022)

Figure 29 – BICS Hotels ranked by SARD

SARD Rank	Company
11	Accor SA
12	Choice Hotels International
13	Wyndham Hotels & Resorts
14	Whitbread
15	Marriott Vacations Worldwide
16	Hilton Grand Vacations
17	Hyatt Hotels

Source: Bloomberg (2021) and author's analysis

Opportunities

Diversified and personalized offering: demand is elastic and can immediately reward those companies who perform well according to the **changing trend**. Companies need to consider **younger generation's preference and needs** (shared economy, personalized services, etc.).

Technology is still underexplored in hospitality industry, for instance, Artificial Intelligence in customer support, automation for check-in and checkout, blockchain for an enhanced payment security, etc.

Threats

Changing consumer lifestyles and buying behaviour may lead to different needs and expectation (e.g., new generation, elderly group, etc.).

Fierce Competition: business models have changed from traditional hospitality providers to online marketplaces providers (e.g., Airbnb, private accommodation rental, share accommodation).

Highly sensitive to macroeconomic factors: for example, the impact of the Covid pandemic decreased the purchasing power of some guests.

Cyber risk: protecting customer database is necessary along with the technology development.

Source: Author's analysis

Porters Five Forces

Bargaining power of Suppliers | Medium (3)

Overall bargaining power of suppliers is medium, but it can be varied depending on the suppliers on different functions. Most of the supplies of goods sold are adequate in the market, for instance, F&B raw material, room facilities, cleaning materials, etc. However, the two most noteworthy factors are the labor market and distribution channel, which increased the bargaining power of suppliers. Since the hospitality industry has the characteristics of being labor-intensive and seasonal, it is essential for hotels to have qualified and flexible workforces. Some key indicators like pay rates, turnover rates and employee training programs should be considered to get a balanced number of employees. On top of that, distribution channels or intermediaries such as "Tripadvisor.com" and "Booking.com" usually charge a commission fee, which range from 12% to 30%. Hotels need intermediaries to improve their exposure while they should limit the number of rooms selling from those channels to ensure profitability (Appendix 3).

Bargaining power of Customers | Significant (4)

For niche markets or hotels at a special location, the power could also be low because of the limited supply. With many prices comparing tools and room booking platforms available online, a hotel guest who is price sensitive can easily compare and find the most cost-effective choice. Low switching costs increase guests' bargaining power and the free cancelation policy further squeeze on margins. Some chain hotels have developed membership programs to improve guests' brand loyalty, even though the effect varies from person to person due to high substitute availability and changing guests' profiles.

The customers have an important market power through opinion surveys, like travel sites

Threat of new entrants | Low (2)

There is a high initial capital expenditure required to start a business in the hospitality industry. Especially under the current pandemic situation, the hotel construction and layout need to consider adding more space for the common area or open space with

good air circulation. Another issue is the lack of location available since the market is nearing saturation, which will also have an impact on the market share of new players. However, compared to other technology or pharmaceutical industries, there is less strict regulatory barriers.

Threat of substitutes products or services | Medium (3)

As a result of the COVID-19 pandemic, online communication platforms have allowed people to reduce the need for business travel. Virtual meetings can indeed save more time and travel expenses for companies, so business-type hotels which highly rely on events and conferences will suffer.

Moreover, private accommodation rental (e.g., Airbnb) keeps rising in most of major cities worldwide. Shared accommodation platforms and apartment hotels have seen rapid growth in recent 5 years, while low-end hotels and motels have seen losses. As those private accommodation rental platforms become more regulated and mature, the competition between traditional hotels and those platforms will be fiercer.

Competitive rivalry between existing players | High (5)

With a large amount of hotel brands all around the world, the competitive rivalry between existing players is high. As the market is almost saturated and it is hard to further differentiate on products or services, hotel's positioning is the most important factor to success. Hotels with clear positioning in market segmentation can more precisely attract target customers. Moreover, with the changing needs, personalize services could improve guest's perception of value. Five-star hotels are main players and usually aligned to set the price. For lower-class hotels, their capacity to increase the price is limited.

5. Investment Summary

Accor has a **BUY** recommendation through a Discounted Cash Flow Model, with a **PT of €32.33/share for 2023YE**, representing a **+24% upside potential** or a **potential annualized return of +17%** against the closing price of **€26.08/share** on August 18th, 2022, with **high-risk**.

Despite a disrupted start to the year due to general health restrictions, the year 2021 showed a significant improvement in Accor's business compared to the previous year in which the industry was negatively impacted by the COVID-19 pandemic as the hospitality demand has declined sharply due to lockdowns, travel restrictions and social distancing. However, the beginning of the war in Ukraine will affect the tourism and travel sector.

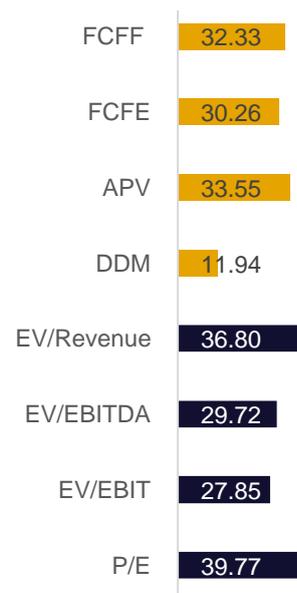
Valuation Methods

To achieve a **Price Target of €32.33/share**, a DCF model on a global FCFF was followed. To complement the analysis, additional approaches are used, absolute and relative methods (Figure 31).

The Price Target values computed through the **absolute methods** has little disparity, ranging from **€30.26/share to €33.55/share**, all with **upside potentials** except when using the DDM, due to the company's insecure and unstable shareholder return policy, presented a PT of €11.94/share.

Compared to the PT achieved using the **relative methods**, these ranged more widely from **€27.85/share to €39.77/share**, also all with upside potential, however not all agreed with the investment recommendation. This situation may be due to the pandemic of COVID-19 and the very different recovery journey between peers and rising inflation.

Figure 31 - Valuation Methods – PT (€/share)



Source: Author's analysis

Investments Risks

The recommendation in this industry is deeply affected by risks which may beware its customers and investors. One of the most glaring risks is the **pandemic of COVID-19** which affected the entire world economy, including hotels, plus all the **uncertainty and unpredictability of the future it created**.

In addition, the industry is susceptible to other risks such as economic risks, the cycle of the economy directly affects demand and therefore the profitability of hotels. In addition, due to its global presence, Accor is also affected by fluctuations in **exchange rates** and **inflation rates**.

Market, regulatory and operational risks are examples of many risks to which Accor is exposed, affecting the long-term sustainable growth rate, thus the value of the company and the share price.

6. Valuation

To achieve an investment recommendation for Accor SA, a forecasted period of six years was considered, from 2022F to 2027F, with a Price Target estimated for 2023YE, against the closing price of August 18th, 2022. Different valuation methods were applied based on the **WACC Method, Flow-to-Equity Method, APV Method, Dividend Discount Model** and **market-based valuation**.

WACC Method

The FCFF was computed for the WACC, followed by a Two-Stage DCF model to reach the Enterprise Value (Appendix 21). Following this approach, a **PT of €32.33/share for 2023YE** with an **upside potential of 24%** was reached (Figure 32). Since, Accor presents a steady capital structure, with a relatively stable debt-to-equity ratio, thus this method is the most appropriate for the valuation of the company.

Revenues

Total revenues are expected to grow in **line with the recovery in RevPAR** and the number of rooms in each segment. Accor's RevPAR was assumed to recover to the values of 2019 in 2023F (Appendix 12).

In M&F segment in Europe, is predicted to experience +1.80%CAGR number of room growth 2022F to 2027F, with RevPAR expected to grow +7.19%CAGR in the forecast years. This applies to the other segments as well, in ASPAC, IMEAT and Americas, the number of rooms is expected to increase by +4.70% CAGR, +4.31%CAGR and +2.94%CAGR, and RevPAR growth of +8.35%CAGR, +8.83%CAGR and +8.88%CAGR, in the forecast period from 2022F to 2027F, respectively (Figure 33).

For the O&L segment, it was assumed that the sum of rooms was not going to grow, due to the Asset Light strategy that Accor follows, so its total for the O&L hotels remained constant, with RevPAR growing +9.39% CAGR 2022F-2017.

WACC rate assumptions

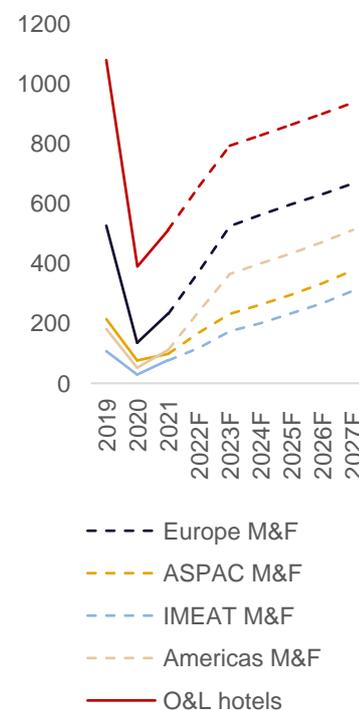
For the **Cost of Equity**, the **CAPM** methodology was applied, assuming a **Risk-Free Rate of 0.80%** according to a survey estimate conducted by Pablo Fernandez (2021) of France (Appendix 15). Considering the different methods to compute beta (Appendix 16), the **Blume Adjusted Beta**, calculated through a regression of Accor monthly data for 5 years (60 observations) with the CAC 40 Index, resulting in a beta of **1.65**.

Figure 32 – WACC Method

WACC Method	
Enterprise Value	9,876
Net Debt	(1,410)
Equity Value	8,466
No. of issued Shares (M)	262
Price per Share	€ 32.33
Upside Potential	24%
Price 18 Aug, 22	€ 26.08

Source: Author's analysis

Figure 33 - Revenues Forecasted



Source: Author's analysis

Due to its global presence, the **Equity Risk Premium**, using the historical adjusted default spread from Damodaran, were computed based on the 2021YE weighted sales. After considering the regions where Accor operates, namely Europe (France), ASPAC (China), IMEAT (Saudi Arabia), and Americas (US), a **ERP of 5.09%** was reached (Appendix 17). The **Cost of Debt** was computed using the historical average of interest expense to debt ratio of **3.27%** (Appendix 18). The **WACC** varies from **6.42% in 2022F to 7.03% in 2027F**, while the **pre-tax WACC** varies from **6.78% to 7.32%** (Appendix 19).

Long-run sustainable growth rate

For the long-term sustainable growth rate (g), it was tested with different methods (Appendix 20). The first, was the stable growth model that considered Accor's Reinvestment Rate and ROE (DuPont Analysis) where a g of -0.4% was obtained. This value does not seem reasonable to consider since it would indicate that Accor is not growing in the long term. The other approach to estimating g was to use Dividend Sustainable growth, in which a g of 0.31% was obtained, again this cannot be considered a reasonable value for g. The g typically varies between the **historical inflation and the average GDP growth rate** depending on sales by region, thus, it is assumed a **g of 3.01%**.

Flow-to-Equity Method

The Flow to Equity method was applied using the **Free Cash Flow to the Equity** (FCFE) (Appendix 22), it achieved a **2023YE PT of €30.26/share**, meaning an **upside potential of 16%**, against the closing price of August 18th, 2022 (Figure 34).

APV Method and DDM

The **Adjusted Present Value** (APV) was calculated, considering the **Pre-tax WACC** to reach the **unlevered intrinsic Enterprise Value** and the **Costs of Debt** (K_d) to the Interest tax Shield (Appendix 23). Using this approach, a PT of **€33.55/share** for 2023YE was reached with an **upside potential of 29%** (Figure 35). For DDM (Appendix 24), a PT of €11.94 in 2023YE was obtained, being a price well outside the price share and may be because of the uncertainty caused by the COVID-19 pandemic, it was assumed that it is not considered an appropriate method.

Relative Valuation

There was also considered a **market-based approach**, using market multiples obtained from the peer group previously identified (Appendix 25). As a result, the peer average EV/Revenue of 3.18x produced a PT of €36.80/share for 2023YE, with an upside potential of 41%, the peer average EV/EBITDA of 14.05x resulted in a PT of €29.72/share for 2023YE, with an upside potential of 14%, and peer average EV/EBIT of 14.05x resulted in a PT of €27.85/share for 2023YE, with an upside potential of 7%. And last but not least, the peer average P/E of 39.77x translated to a PT of €39.77 for the same year, with an upside potential of 53% (Appendix 26).

7. Financial Analysis

Operational Efficiency

From 2017 to 2019, Accor's revenue grew with a **CAGR of +20.81%**, increasing from €2,774M to €4,049M. However, with the **COVID-19 pandemic**, in 2020YE, revenue decreased dramatically from **-60%YOY**, registering €1.621M.

Figure 34 – Flow-to-Equity Method

Flow to Equity Method	
Equity Value	7,925
No. of issued Shares (M)	262
Price per Share	€30.26
Upside Potential	16%
Price 18 Aug, 22	€26.08

Source: Author's analysis

Figure 35 – APV Method

APV Method	
Unlevered Enterprise Value	10,195
Net Debt	(1,410)
Equity value	8,785
No. of issued Shares (M)	262
Price per Share	€33.55
Upside Potential	29%
Price 18 Aug, 22	€26.08

Source: Author's analysis

Through the improvement of the pandemic situation, revenue in 2021 increased but still down -46% compared to 2019. In the forecast years, it is expected that revenue will **continue to recover and expanding**, thereby the total revenue will recover to pre-pandemic values in 2025F (+16.52% CAGR 2021-2025F).

Asset turnover is expected to increase from 0.27x in 2022F to 0.37x in 2027F, which reflects an **improvement in Accor's operational efficiency** compared to historical asset turnover (Appendix 10).

In addition, through **Fixed Asset Turnover** of 0.29x in 2022F and 0.57x in 2027F, which means that Accor may experience an improvement in its ability to generate revenue from its investments in fixed assets, such as PP&E (Figure 36).

Profitability

Due to the COVID-19 pandemic, all profitability ratios recorded negative values in 2020YE (Appendix 10). With the recovery from the health crisis in 2021, positive operating income and net income were again recorded, leading to a **Net Profit Margin of 4%, ROA of 1% and ROE of 2% in 2021YE**. The forecast period is based on continuous improvement of the indicators, reaching a **Net Profit Margin of 11%, ROA of 4% and ROE of 9% in 2027F** (Figure 37).

Liquidity and Solvency

Accor showed a **current ratio** and **quick ratio** above 1 from 2017 to 2021, showing in 2021YE, both ratios at **1.17x** (Figure 38). However, **cash ratio of 0.65x**, which shows that Accor had some difficulty in covering its short-term obligations using only cash and cash equivalents. It is expected that the current ratio, quick ratio and cash ratio will grow at 6.8%, 6.9% and 11.2% 2022F-2025F CAGRs, respectively.

Regarding solvency, in 2021YE, the company reported the **interest coverage ratio of 0.85x**, indicating a recovery from the previous year which was severely affected by the health crisis. In the projected period, the interest coverage ratio is expected to grow at a CAGR of 21% from 2022F-2027F, recording **5.83x in 2027F**, reflecting the company's improvement in paying its interest expenses (Appendix 10).

8. Investment Risks

Operational Risks

Data Privacy/Cyber Security (OP01)

Companies must have secure server to prevent cyber-attacks and protect the integrity and security of the company, associates, and guest data. A security breach can lead to large costs as well as reputational damage.

Innovation of Operations (OP02)

A failure in keeping up with the newest developments in technology can weaken the hotel's operational and competitive position – to look more appealing hotels should use sophisticated technology and systems in reservations, payroll systems and technologies that are available to guests and associates.

Health and Safety Risks (OP03)

All the risks related to guests' safety (e.g., fire risk, COVID-19). Ways to prevent these risks is ensuring proper equipment, cleaning and disinfecting rooms and hallways, and complying with the measures of public health authorities.

Figure 36 – Efficiency ratios

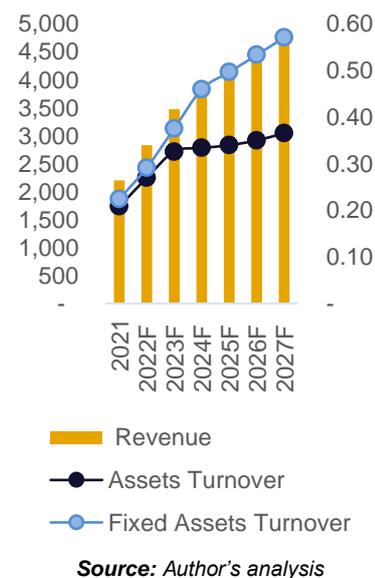


Figure 37 – Profitability ratios

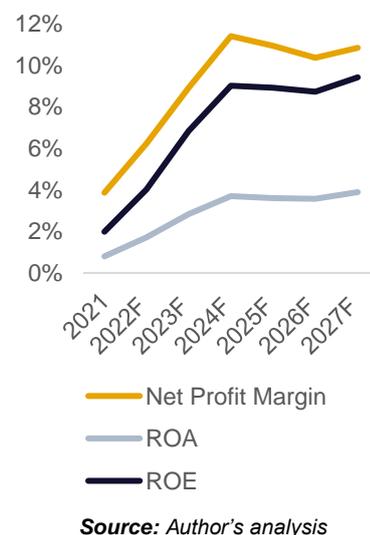
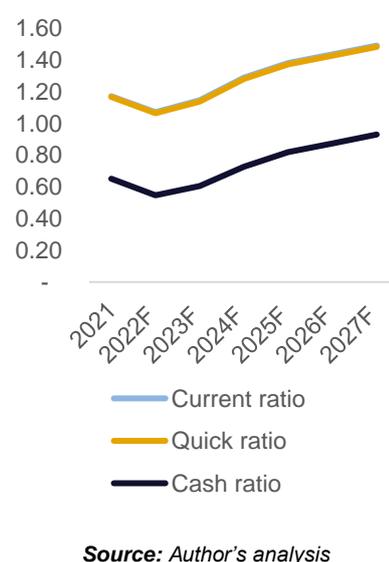


Figure 38 – Liquidity ratios



Managerial Risk (OP04)

Associated with ineffective, underperforming and even destructive management, which can be financial and/or ethical. These behaviors are associated with lack of compliance with rules and regulations, and fraudulent activities. An effective management team can be key in influencing investors decisions.

Staff (OP05)

It is vital to retain a key quality management and staff team since hospitality industry is highly competitive and qualified professionals are scarce. A shortage of skilled labor can result in an increase in labor costs, reducing profits, limiting the ability to grow and expand and decrease guests' satisfaction. Therefore, hotels must produce retention strategies to keep employees engaged.

Market/Economic Risks

Reputation (ME01)

Hotels are highly dependent on the quality and reputation of their brands, and any deterioration could rapidly impact the market share, reputation, business, financial condition, or results of operations.

Macro External Risks (ME02)

Risks such as political and economic disruption, risk of infectious diseases (e.g. COVID-19), acts of terrorism or war, natural or man-made disasters can affect the ability of hotels to operate efficiently, to grow and also reduce the overall demand for hotels.

Currently, there has been a drop in travel mobility due a decrease in consumer's levels of confidence when traveling, which are impacting business and financial results.

New Entrants (ME03)

High initial investments represent a significant barrier to entry for new players. New entrants must distinguish themselves from the established competition. This carries a risk to existing market participants because they must maintain their level of innovation in order to avoid being surpassed by new entrants.

Regulatory Risks

Legal, Regulatory, and Ethical Compliance (RG01)

Hotels are subject to numerous, complex, and frequently changing laws, regulations, and contractual obligations. A non-compliance with those can lead to restrictions in the hotel's business operations, increase in operating costs, increase in exposure to fines and litigations and result in reputational damage.

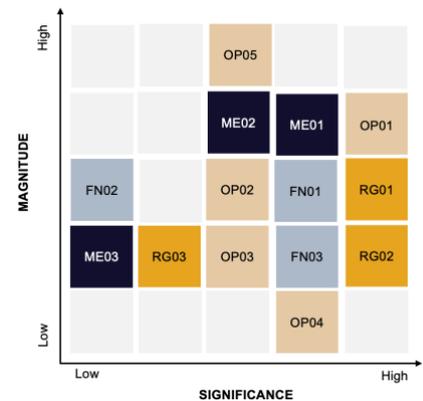
Environmental Risk (RG02)

Hotels (and traveling) produce a large carbon footprint, and this can be subject to scrutiny by regulators and investor groups that focus on ESG issues. Therefore, to maintain a good performance and growth in key markets, companies must comply with environmental regulations imposed by the country in which they are located.

Tax Rates (RG03)

Tax laws and tax rates can change unpredictably – an increase in these can result in higher tax expenses and liabilities, which will deteriorate financial results.

Figure 39 – Risk Matrix



Label

Magnitude: probability of risk realization
Significance: dimension of Economic/ Financial influence on revenues, efficiency, and market share.

Source: Author's analysis

Financial Risks

Capital/Debt (FN01)

Hospitality industry is capital intensive, and obtaining financing to operate the business, react to economic or industry changes and to fund investments, is constrained by capital markets. Therefore, investment effectiveness and efficiency are critical to meet short term and long-term strategic needs and also to strengthen the competitive position.

Currently, if hotels face substantial indebtedness, they can adversely affect the ability to raise capital and lead to an increase of the borrowing costs.

Foreign Currency (FN02)

Accor's operation in different markets is subjected to exchange rate fluctuations. Hedging agreements are a way to mitigate this risk, however this might not be sufficient as it may not include all business currencies, and do not entirely remove the risk for the currencies covered. These agreements are exposed to their own cost and risks.

Liquidity (FN03)

Hotels might be forced to delay new investments and business activities, sell assets, obtain funds from capital markets, or even go bankrupt if companies are not able to generate sufficient cash flow or obtain additional capital resources to pay its debts when they are due.

Price Target Sensibility

A sensitivity analysis was performed to evaluate the sensitivity of the Price Target to the **cost of capital (WACC)**, the **long-run sustainable growth rate (g)** and the **number of rooms** in 2022 in Europe and its **RevPAR**.

Long-run sustainable growth rate and WACC

The base case scenario was considered a **long-run sustainable growth rate** of 3.01%. Each **7.5bps increase** in this variable leads to an **increase of €0.61-0.69/share** on the Price Target, and each 7.5bps decrease leads to a decrease of €0.53-0.59/share on the PT, *ceteris paribus*. The other variable, **WACC**, assumes a value of 7.03% in the base case, each **increase of 20bps** leads to a **decrease of €1.12-1.46/share** and each decrease will lead to an increase of €1.62-2.25/share, with all other variables remaining constant.

Figure 41 - Long-run sustainable growth rate and WACC

		Growth rate									
		€ 32.33	2.7%	2.8%	2.9%	2.9%	3.0%	3.1%	3.2%	3.2%	3.3%
WACC	6.2%		€ 36.61	€ 37.40	€ 38.23	€ 39.10	€ 40.00	€ 40.95	€ 41.94	€ 42.98	€ 44.08
	6.4%		€ 34.72	€ 35.43	€ 36.17	€ 36.94	€ 37.75	€ 38.59	€ 39.47	€ 40.39	€ 41.35
	6.6%		€ 33.02	€ 33.66	€ 34.33	€ 35.02	€ 35.74	€ 36.49	€ 37.28	€ 38.09	€ 38.95
	6.8%		€ 31.49	€ 32.07	€ 32.67	€ 33.30	€ 33.95	€ 34.62	€ 35.32	€ 36.06	€ 36.82
	7.0%		€ 30.10	€ 30.63	€ 31.17	€ 31.74	€ 32.33	€ 32.94	€ 33.57	€ 34.23	€ 34.92
	7.2%		€ 28.83	€ 29.31	€ 29.81	€ 30.33	€ 30.87	€ 31.42	€ 31.99	€ 32.59	€ 33.21
	7.4%		€ 27.67	€ 28.11	€ 28.57	€ 29.04	€ 29.53	€ 30.04	€ 30.56	€ 31.11	€ 31.67
	7.6%		€ 26.60	€ 27.01	€ 27.43	€ 27.87	€ 28.32	€ 28.78	€ 29.26	€ 29.76	€ 30.27
	7.8%		€ 25.62	€ 26.00	€ 26.39	€ 26.79	€ 27.20	€ 27.63	€ 28.07	€ 28.52	€ 28.99

Source: Author's Analysis

Figure 40 - Investment recommendation system - High risk

Investment recommendation	Threshold (upside potential)
Sell	≤ 0%
Reduce	> 0% & ≤ 10%
Hold	> 10% & ≤ 20%
Buy	> 20% & ≤ 45%
Strong Buy	< 45%

Number of rooms and RevPAR

In terms of M&F segment, Accor has the largest number of rooms in Europe, being also the one that most impacts revenues, considering it essential to analyze. With 342,863 rooms as the base case, each increase (decrease) of **50,000 rooms** leads to an increase (decrease) of **€0.66/share**, *ceteris paribus*. **RevPAR** assumes a value of €47.23 in the base case, and each variation of **€5** is proportional of **€0.36/share** on the PT, with all other variables remaining constant.

Figure 42 –Number of rooms and RevPAR

		Number of Rooms								
		142,863	192,863	242,863	292,863	342,863	392,863	442,863	492,863	542,863
RevPAR	€ 32.33									
	€ 27.23	€ 29.08	€ 29.53	€ 29.99	€ 30.44	€ 30.89	€ 31.34	€ 31.80	€ 32.25	€ 32.70
	€ 32.23	€ 29.23	€ 29.73	€ 30.24	€ 30.75	€ 31.25	€ 31.76	€ 32.26	€ 32.77	€ 33.27
	€ 37.23	€ 29.38	€ 29.94	€ 30.49	€ 31.05	€ 31.61	€ 32.17	€ 32.73	€ 33.28	€ 33.84
	€ 42.23	€ 29.53	€ 30.14	€ 30.75	€ 31.36	€ 31.97	€ 32.58	€ 33.19	€ 33.80	€ 34.41
	€ 47.23	€ 29.68	€ 30.34	€ 31.00	€ 31.67	€ 32.33	€ 32.99	€ 33.66	€ 34.32	€ 34.98
	€ 52.23	€ 29.83	€ 30.54	€ 31.26	€ 31.97	€ 32.69	€ 33.40	€ 34.12	€ 34.83	€ 35.55
	€ 57.23	€ 29.98	€ 30.75	€ 31.51	€ 32.28	€ 33.05	€ 33.82	€ 34.58	€ 35.35	€ 36.12
	€ 62.23	€ 30.13	€ 30.95	€ 31.77	€ 32.59	€ 33.41	€ 34.23	€ 35.05	€ 35.87	€ 36.69
	€ 67.23	€ 30.28	€ 31.15	€ 32.02	€ 32.89	€ 33.77	€ 34.64	€ 35.51	€ 36.38	€ 37.26

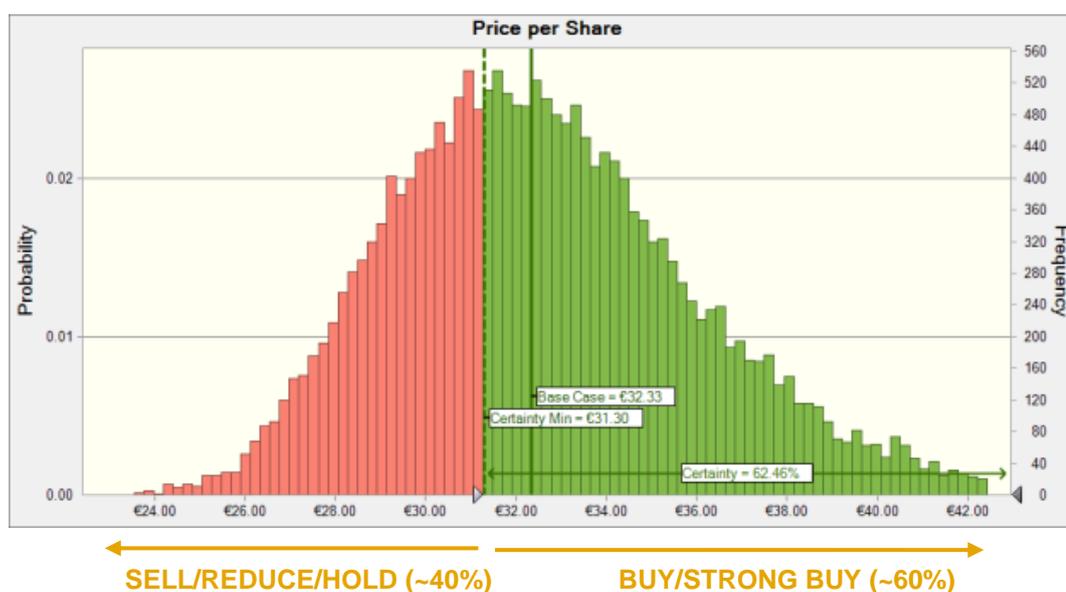
Source: Author's Analysis

Monte Carlo Simulation

A realization of Monte Carlo Simulation was used to further complement the analysis on the price target sensitivity taking into consideration the changes in the **Cost of Capital (WACC)**, the **long-run sustainable growth rate (g)**, and the **tax rate**.

With the output of 20,000 observations, a mean value of €32.67 was achieved, which is slightly above the WACC estimated price target (€32.33/share), and a BUY probability of approximately 62.46%, which again in agreement with the author's **BUY recommendation**.

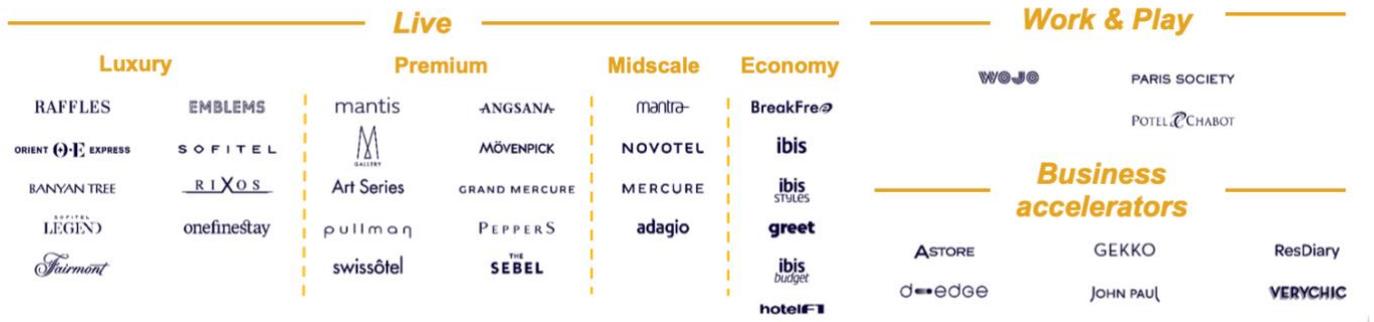
Figure 43 – Monte Carlo Simulation



Source: Author's Analysis

Appendices

Appendix 1: Live, Work, Play: The brand architecture



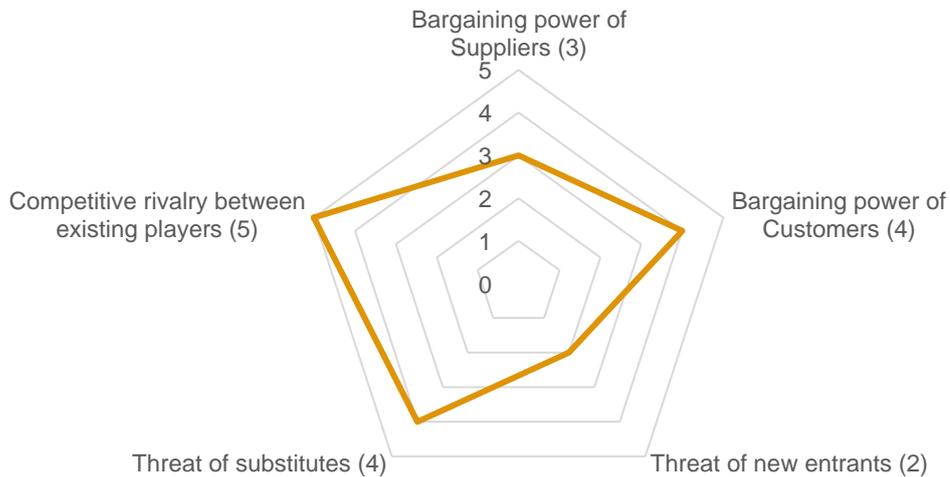
Source: Accor's 2022 overview

Appendix 2: Business segments



Source: Accor's 2021 Universal Registration Document

Appendix 3: Porter's Five Forces



Label: Scale of 1 (lower threats to industry profitability) to 5 (higher threats to industry profitability)

Source: Michael E. Porter framework

Appendix 4: Statement of Financial Position

Balance Sheet (€M)	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F
Assets	12,080	12,975	13,937	10,553	10,669	10,323	10,969	11,567	12,360	12,719	13,207
Non-Current Assets	10,298	9,211	10,663	6,869	7,590	7,526	7,552	7,550	7,588	7,649	7,719
Property/Plant/Equipment	662	1,183	1,163	619	548	765	764	726	693	718	765
Goodwill	1,500	2,068	1,947	1,786	2,158	2,158	2,158	2,158	2,158	2,158	2,158
Intangibles	2,156	3,053	3,130	2,751	2,908	2,627	2,654	2,690	2,761	2,797	2,821
Long Term Investments	740	2,252	1,907	1,213	1,308	1,308	1,308	1,308	1,308	1,308	1,308
Note Receivable - LT	219	393	456	234	360	360	360	360	360	360	360
Other Long Term Assets	5,021	262	2,060	266	308	308	308	308	308	308	308
Current Assets	1,782	3,764	3,274	3,684	3,079	2,797	3,417	4,017	4,772	5,070	5,487
Cash & ST Investments	1,116	2,875	2,340	2,512	1,711	1,429	1,809	2,269	2,841	3,077	3,423
Inventory	8	15	20	21	9	17	23	26	29	27	31
Accounts Receivable	403	617	649	534	697	646	848	961	1,116	1,157	1,201
Prepaid Expenses	27	41	28	61	69	69	69	69	69	69	69
Other Current Assets	228	216	237	556	593	637	668	693	717	740	764
Equity + Liabilities	12,080	12,975	13,937	10,553	10,669	10,323	10,969	11,567	12,360	12,719	13,207
Equity	5,442	6,328	6,822	4,095	4,293	4,381	4,536	4,750	4,971	5,198	5,454
Common Stock	870	848	813	784	786	786	786	786	786	786	786
Additional Paid-In Capital	3,244	2,361	4,419	4,299	2,422	2,419	2,440	2,536	2,742	2,959	3,156
Retained Earnings	441	2,233	464	(1,988)	85	176	310	428	443	453	513
Other Equity	887	886	1,126	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Liabilities	6,638	6,647	7,115	6,458	6,376	5,942	6,433	6,818	7,389	7,521	7,752
Non-Current Liabilities	5,182	3,605	5,035	3,524	3,741	3,322	3,440	3,687	3,918	3,980	4,060
Long Term Debt	2,768	2,760	3,301	2,787	2,835	2,416	2,534	2,781	3,012	3,074	3,154
Deferred Income Tax	416	573	621	513	510	510	510	510	510	510	510
Minority Interest	341	115	153	66	256	256	256	256	256	256	256
Other NC Liabilities	1,657	157	960	158	140	140	140	140	140	140	140
Current Liabilities	1,456	3,042	2,080	2,934	2,635	2,621	2,993	3,131	3,471	3,541	3,692
Short Term Debt	237	1,259	345	1,035	691	569	686	665	814	774	799
Accounts Payable	398	426	441	327	441	444	554	622	718	753	787
Accrued Expenses	286	373	443	271	313	329	414	453	501	529	573
Other Current Liabilities	535	984	851	1,301	1,190	1,278	1,340	1,390	1,438	1,485	1,533

Appendix 5: Income Statement

Income Statement (€M)	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F
Revenue	2,774	3,282	4,049	1,621	2,204	2,835	3,472	3,759	4,062	4,387	4,741
Cost of Revenue	(67)	(76)	(107)	(49)	(54)	(70)	(86)	(94)	(100)	(109)	(117)
Gross Profit	2,707	3,206	3,942	1,572	2,150	2,765	3,386	3,664	3,962	4,279	4,623
Selling, General and Administrative Expense	(2,084)	(2,580)	(3,117)	(1,963)	(2,128)	(2,319)	(2,898)	(3,184)	(3,520)	(3,693)	(4,018)
Selling, General and Administrative Expense	(477)	(858)	(1,178)	(848)	(828)	(779)	(1,044)	(1,167)	(1,282)	(1,318)	(1,455)
Labor & Related Expense	(1,607)	(1,722)	(1,939)	(1,115)	(1,300)	(1,540)	(1,854)	(2,017)	(2,238)	(2,374)	(2,563)
Other Income and Expenses	(99)	(432)	177	(958)	548	89	167	349	427	304	374
EBITDA	524	194	1,002	(1,349)	570	534	654	830	870	890	979
Depreciation/Amortization	(126)	(120)	(328)	(274)	(249)	(275)	(229)	(234)	(245)	(239)	(245)
EBIT	398	74	674	(1,623)	321	259	425	596	624	651	734
Interest Income (Expenses)	(25)	17	(72)	(686)	(377)	(115)	(98)	(105)	(113)	(125)	(126)
Net Income Before Taxes (EBT)	373	91	602	(2,309)	(56)	144	328	491	512	526	608
Provision for Income Taxes	43	(109)	(138)	62	69	(40)	(90)	(135)	(141)	(145)	(167)
Net Income After Taxes	416	(18)	464	(2,247)	13	104	238	356	371	381	441
Minority Interest	(36)	(22)	(18)	2	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Net Income Before Extra Items	380	(40)	446	(2,245)	7	98	232	350	365	375	435
Extraordinary Items	67	2,274	17	257	78	78	78	78	78	78	78
Net Income	447	2,234	463	(1,988)	85	176	310	428	443	453	513

Appendix 6: Cash Flow Statement

Cash Flow Statement (€M)	2022F	2023F	2024F	2025F	2026F	2027F
Cash from Operating Activities	674	653	784	810	866	938
+EBIT	259	425	596	624	651	734
+D&A	275	229	234	245	239	245
-Income Tax	32	(18)	(63)	(69)	(73)	(95)
-ΔNWC	107	17	17	9	48	54
Cash from Investing Activities	(212)	(254)	(232)	(284)	(300)	(316)
-CAPEX	(212)	(254)	(232)	(284)	(300)	(316)
-Other Inv.	-	-	-	-	-	-
Cash from Financing Activities	(744)	(18)	(92)	46	(330)	(276)
-Interest paid	(115)	(98)	(105)	(113)	(125)	(126)
-Dividends	(88)	(155)	(214)	(221)	(227)	(256)
-ΔDebt	(541)	235	227	380	21	106
Net Change in Cash	(282)	381	460	572	236	346
Net Cash - Beginning Balance	1,711	1,429	1,809	2,269	2,841	3,077
Net Cash - Ending Balance	1,429	1,809	2,269	2,841	3,077	3,423

Appendix 7: Common-Size Statement of Financial Position

Balance Sheet	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F
Assets	100%										
Non-Current Assets	85%	71%	77%	65%	71%	73%	69%	65%	61%	60%	58%
Property/Plant/Equipment	5%	9%	8%	6%	5%	7%	7%	6%	6%	6%	6%
Goodwill	12%	16%	14%	17%	20%	21%	20%	19%	17%	17%	16%
Intangibles	18%	24%	22%	26%	27%	25%	24%	23%	22%	22%	21%
Long Term Investments	6%	17%	14%	11%	12%	13%	12%	11%	11%	10%	10%
Note Receivable - Long Term	2%	3%	3%	2%	3%	3%	3%	3%	3%	3%	3%
Other Long Term Assets	42%	2%	15%	3%	3%	3%	3%	3%	2%	2%	2%
Current Assets	15%	29%	23%	35%	29%	27%	31%	35%	39%	40%	42%
Cash and Short Term Investments	9%	22%	17%	24%	16%	14%	16%	20%	23%	24%	26%
Inventory	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Accounts Receivable	3%	5%	5%	5%	7%	6%	8%	8%	9%	9%	9%
Prepaid Expenses	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%	1%
Other Current Assets	2%	2%	2%	5%	6%	6%	6%	6%	6%	6%	6%
Equity + Liabilities	100%										
Equity	45%	49%	49%	39%	40%	42%	41%	41%	40%	41%	41%
Common Stock	7%	7%	6%	7%	7%	8%	7%	7%	6%	6%	6%
Additional Paid-In Capital	27%	18%	32%	41%	23%	23%	22%	22%	22%	23%	24%
Retained Earnings	4%	17%	3%	-19%	1%	2%	3%	4%	4%	4%	4%
Other Equity	7%	7%	8%	9%	9%	10%	9%	9%	8%	8%	8%
Liabilities	55%	51%	51%	61%	60%	58%	59%	59%	60%	59%	59%
Non-Current Liabilities	43%	28%	36%	33%	35%	32%	31%	32%	32%	31%	31%
Long Term Debt	23%	21%	24%	26%	27%	23%	23%	24%	24%	24%	24%
Deferred Income Tax	3%	4%	4%	5%	5%	5%	5%	4%	4%	4%	4%
Minority Interest	3%	1%	1%	1%	2%	2%	2%	2%	2%	2%	2%
Other Liabilities	14%	1%	7%	1%	1%	1%	1%	1%	1%	1%	1%
Current Liabilities	12%	23%	15%	28%	25%	25%	27%	27%	28%	28%	28%
Short Term Debt	2%	10%	2%	10%	6%	6%	6%	6%	7%	6%	6%
Accounts Payable	3%	3%	3%	3%	4%	4%	5%	5%	6%	6%	6%
Accrued Expenses	2%	3%	3%	3%	3%	3%	4%	4%	4%	4%	4%
Other Current Liabilities	4%	8%	6%	12%	11%	12%	12%	12%	12%	12%	12%

Appendix 8: Common-Size Income Statement

Income Statement	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Revenue	-2%	-2%	-3%	-3%	-2%	-2%	-2%	-3%	-2%	-2%	-2%
Gross Profit	98%	98%	97%	97%	98%	98%	98%	97%	98%	98%	98%
Selling, General and Administrative Expense	-75%	-79%	-77%	-121%	-97%	-82%	-83%	-85%	-87%	-84%	-85%
Selling, General and Administrative Expense	-17%	-26%	-29%	-52%	-38%	-27%	-30%	-31%	-32%	-30%	-31%
Labor & Related Expense	-58%	-52%	-48%	-69%	-59%	-54%	-53%	-54%	-55%	-54%	-54%
Other Income and Expenses	-4%	-13%	4%	-59%	25%	3%	5%	9%	11%	7%	8%
EBITDA	19%	6%	25%	-83%	26%	19%	19%	22%	21%	20%	21%
Depreciation/Amortization	-5%	-4%	-8%	-17%	-11%	-10%	-7%	-6%	-6%	-5%	-5%
EBIT	14%	2%	17%	-100%	15%	9%	12%	16%	15%	15%	15%
Interest Income (Expenses)	-1%	1%	-2%	-42%	-17%	-4%	-3%	-3%	-3%	-3%	-3%
Net Income Before Taxes (EBT)	13%	3%	15%	-142%	-3%	5%	9%	13%	13%	12%	13%
Provision for Income Taxes	2%	-3%	-3%	4%	3%	-1%	-3%	-4%	-3%	-3%	-4%
Net Income After Taxes	15%	-1%	11%	-139%	1%	4%	7%	9%	9%	9%	9%
Minority Interest	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income Before Extra Items	14%	-1%	11%	-138%	0%	3%	7%	9%	9%	9%	9%
Extraordinary Items	2%	69%	0%	16%	4%	3%	2%	2%	2%	2%	2%
Net Income	16%	68%	11%	-123%	4%	6%	9%	11%	11%	10%	11%

Appendix 9: Common-Size Cash Flow Statement

Cash Flow Statement	2022F	2023F	2024F	2025F	2026F	2027F
Cash from Operating Activities	100%	100%	100%	100%	100%	100%
+EBIT	38%	65%	76%	77%	75%	78%
+D&A	41%	35%	30%	30%	28%	26%
-Income Tax	5%	-3%	-8%	-8%	-8%	-10%
-ΔNWC	16%	3%	2%	1%	6%	6%
Cash from Investing Activities	100%	100%	100%	100%	100%	100%
-CAPEX	100%	100%	100%	100%	100%	100%
-Other Inv.	0%	0%	0%	0%	0%	0%
Cash from Financing Activities	100%	100%	100%	100%	100%	100%
-Interest paid	15%	547%	114%	-247%	38%	46%
-Dividends	12%	867%	231%	-485%	69%	93%
-ΔDebt	73%	-1314%	-245%	831%	-6%	-38%

Appendix 10: Key Financial Ratios

Ratios	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F
Liquidity Ratios												
Current ratio	x	1.22	1.24	1.57	1.26	1.17	1.07	1.14	1.28	1.37	1.43	1.49
Quick ratio	x	1.22	1.23	1.56	1.25	1.17	1.06	1.13	1.28	1.37	1.42	1.48
Cash ratio	x	0.77	0.95	1.13	0.86	0.65	0.55	0.60	0.72	0.82	0.87	0.93
Efficiency Ratios												
Total Assets Turnover	x		0.26	0.30	0.13	0.21	0.27	0.33	0.33	0.34	0.35	0.37
Accounts Receivable Turnover	x		6.4	6.4	2.7	3.6	4.2	4.6	4.2	3.9	3.9	4.0
Receivables Days Outstanding	days	53.0	68.6	58.5	120.2	115.4	83.2	89.2	93.3	100.3	96.3	92.4
Inventory Turnover	x		285.4	231.4	79.1	146.9	220.7	177.1	155.5	146.9	155.8	164.1
Inventory Days Outstanding	days	1.1	1.7	1.8	4.7	1.5	2.1	2.4	2.5	2.6	2.2	2.4
Payables Turnover	x		8.0	9.3	4.2	5.7	6.4	7.0	6.4	6.1	6.0	6.2
Payables Days Outstanding	days	52.4	47.4	39.8	73.6	73.0	57.2	58.2	60.4	64.5	62.7	60.6
Operating Cycle or Cash Cycle	days	1.7	22.9	20.6	51.3	43.9	28.1	33.4	35.4	38.4	35.8	34.2
Fixed Assets Turnover	x		0.28	0.33	0.46	0.22	0.29	0.38	0.46	0.50	0.53	0.57
Profitability Ratios												
EBITDA Margin	%	19%	6%	25%	-83%	26%	19%	19%	22%	21%	20%	21%
EBIT Margin	%	14%	2%	17%	-100%	15%	9%	12%	16%	15%	15%	15%
Net Profit Margin	%	16%	68%	11%	-123%	4%	6%	9%	11%	11%	10%	11%
ROA	%	4%	17%	3%	-19%	1%	2%	3%	4%	4%	4%	4%
ROE	%	8%	35%	7%	-49%	2%	4%	7%	9%	9%	9%	9%
ROE - DuPont Approach	%	8%	35%	7%	-49%	2%	4%	7%	9%	9%	9%	9%
NI/R	%	16%	68%	11%	-123%	4%	6%	9%	11%	11%	10%	11%
R/A	%	23%	25%	29%	15%	21%	27%	32%	32%	33%	34%	36%
A/E	%	222%	205%	204%	258%	249%	236%	242%	244%	249%	245%	242%
ROIC	%	20%	0%	15%	-60%	-3%	7%	11%	16%	17%	17%	19%
EPS	€	1.54	7.90	1.71	-7.61	0.32	0.67	1.18	1.63	1.69	1.73	1.96
Solvency Ratios												
Debt Ratio	%	25%	31%	26%	36%	33%	29%	29%	30%	31%	30%	30%
Long-term debt ratio	%	23%	21%	24%	26%	27%	23%	23%	24%	24%	24%	24%
Short-term debt ratio	%	2%	10%	2%	10%	6%	6%	6%	6%	7%	6%	6%
Debt to Equity Ratio	x	0.55	0.64	0.53	0.93	0.82	0.68	0.71	0.73	0.77	0.74	0.72
Equity Multiplier	x	2.22	2.05	2.04	2.58	2.49	2.36	2.42	2.44	2.49	2.45	2.42
Debt to EBITDA	x	5.73	20.72	3.64	- 2.83	6.19	5.59	4.92	4.15	4.40	4.32	4.04
Interest Coverage Ratio	x	15.92	(x)	9.36	(x)	0.85	2.25	4.36	5.66	5.54	5.21	5.83

Appendix 11: Forecasting Assumptions

Balance Assumptions	Sheet	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Goodwill		YoY (%)	0%	0%	0%	0%	0%	0%	Constant. No impairments are expected in the foreseen period.
Long Term Investments		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Note Receivable - Long Term		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Other Long Term Assets		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Prepaid Expenses		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Other Current Assets		YoY (%)	7%	5%	4%	3%	3%	3%	In line with inflation
Common Stock		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Other Equity		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Deferred Income Tax		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Minority Interest		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Other Non-Current Liabilities		YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Accrued Expenses		Percentage (%)	14%	14%	14%	14%	14%	14%	Average percentage of SG&A of
Other Current liabilities		YoY (%)	7%	5%	4%	3%	3%	3%	In line with inflation

Income Statement Assumptions	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Revenue	Value (M€)	2,835	3,472	3,759	4,062	4,387	4,741	See Revenue Assumptions
Cost of Sales	Percentage (%)	-2%	-2%	-3%	-2%	-2%	-2%	Average percentage of Revenues, excluding the year 2020
Selling, General and Administrative Expense	Percentage (%)	-27%	-30%	-31%	-32%	-30%	-31%	Average percentage of Revenues, excluding the year 2020
Labor & Related Expense	Percentage (%)	-54%	-53%	-54%	-55%	-54%	-54%	Average percentage of Revenues, excluding the year 2020
Other Income and Expenses	Percentage (%)	3%	5%	9%	11%	7%	8%	Average percentage of Revenues, excluding the year 2020
Interest Expenses	Percentage (%)	-3%	-3%	-3%	-3%	-3%	-3%	Average percentage of total borrowings, excluding the year 2020
Income taxes	Rate (%)	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	Company Effective tax rate
Minority Interest	YoY (%)	0%	0%	0%	0%	0%	0%	Constant
Extraordinary Items	YoY (%)	0%	0%	0%	0%	0%	0%	Constant

Appendix 12: Revenues Assumptions

Europe M&F	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Number of Rooms	Number	342,863	349,034	356,015	362,423	368,584	374,850	The number of rooms will grow according to the Europe predicted GDP growth for the period.
Number of Rooms * 365	Number	125,144,878	127,397,486	129,945,436	132,284,454	134,533,289	136,820,355	
RevPAR	Value (€)	47	62	63	65	66	67	Historical average for 2022F. RevPAR equivalent to that of 2019 in 2023F. From 2023F onward, it was assumed the forecasted Europe GDP growth.
Rooms Revenue	Value (M€)	5,911	7,928	8,248	8,548	8,841	9,144	
Fees	Percentage (%)	6%	7%	7%	7%	7%	7%	It was assumed in line with Europe inflation
Total	Value (M€)	373	524	561	596	630	666	

ASPAC M&F	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Number of Rooms	Number	245,494	257,523	269,885	282,569	295,567	308,868	The number of rooms will grow according to the ASPAC predicted GDP growth for the period.
Number of Rooms * 365	Number	89,605,411	93,996,077	98,507,888	103,137,759	107,882,096	112,736,790	
RevPAR	Value (€)	45	56	59	61	64	67	Historical average for 2022F. RevPAR equivalent to that of 2019 in 2023F. From 2023F onward, it was assumed the forecasted ASPAC GDP growth.
Rooms Revenue	Value (M€)	4,018	5,249	5,765	6,320	6,914	7,551	
Fees	Percentage (%)	4%	4%	5%	5%	5%	5%	It was assumed in line with ASPAC inflation
Total	Value (M€)	169	231	262	296	334	376	

IMEAT M&F	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Number of Rooms	Number	94,671	98,766	103,136	107,622	112,169	116,909	The number of rooms will grow according to the IMEAT predicted GDP growth for the period.
Number of Rooms * 365	Number	34,554,937	36,049,438	37,644,626	39,282,167	40,941,838	42,671,631	
RevPAR	Value (€)	59	76	79	82	86	90	Historical average for 2022F. RevPAR equivalent to that of 2019 in 2023F. From 2023F onward, it was assumed the forecasted IMEAT GDP growth.
Rooms Revenue	Value (M€)	2,027	2,728	2,974	3,239	3,518	3,822	
Fees	Percentage (%)	6%	6%	7%	7%	8%	8%	It was assumed in line with IMEAT inflation
Total	Value (M€)	119	173	201	232	268	308	

Americas M&F		Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Number of Rooms	of	Number	95,131	99,293	101,949	104,549	107,215	109,976	The number of rooms will grow according to the Americas predicted GDP growth for the period.
Number of Rooms * 365	of	Number	34,722,880	36,242,006	37,211,480	38,160,373	39,133,462	40,141,149	
RevPAR		Value (€)	68	94	97	99	102	104	Historical average for 2022F. RevPAR equivalent to that of 2019 in 2023F. From 2023F onward, it was assumed the forecasted Americas GDP growth.
Rooms Revenue		Value (M€)	2,365	3,411	3,596	3,782	3,977	4,185	
Fees		Percentage (%)	10%	11%	11%	11%	12%	12%	It was assumed in line with Americas inflation
Total		Value (M€)	241	365	399	434	471	511	

Services to Owners		Notes/ Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Sales, Marketing, Distribution and Loyalty Division		YOY (%)	9%	9%	9%	9%	9%	9%	Historical average (2018 - 2019)
Total		Value (M€)	1,162	1,270	1,387	1,516	1,656	1,809	

Hotel Assets & Other		Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Owned and leased hotels		Value (M€)	655	792	826	862	898	935	
Number of Rooms		Number	23,309	23,309	23,309	23,309	23,309	23,309	Constant
Number of Rooms * 365		Number	8,507,785	8,507,785	8,507,785	8,507,785	8,507,785	8,507,785	
RevPAR		Value (€)	49	64	67	70	73	77	Historical average for 2022F. RevPAR equivalent to that of 2019 in 2023F. From 2023F onward, it was assumed the forecasted ASPAC GDP growth.
Rooms Revenue		Value (M€)	417	544	571	597	625	653	
Accommodation, F&B sales and others		Value (M€)	239	247	256	264	273	282	In line with World GDP growth.
New activities		Value (M€)	126	131	135	140	145	149	In line with World GDP growth.

REVENUE (€M)	2022F	2023F	2024F	2025F	2026F	2027F
Hotel Services	2,065	2,561	2,810	3,074	3,359	3,671
Services to Owners	1,162	1,270	1,387	1,516	1,656	1,809
Management & Franchise	902	1,292	1,423	1,558	1,703	1,862
Hotel Assets & Other	782	923	962	1,002	1,042	1,084
Owned and leased hotels	655	792	826	862	898	935
New activities	126	131	135	140	145	149
Holding & Intercos	(12)	(12)	(13)	(13)	(14)	(14)
Total Revenue	2,835	3,472	3,759	4,062	4,387	4,741

Appendix 13: CAPEX Assumptions

D&A Assumptions	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
Depreciation & Amortization	Rate (%)	8%	7%	7%	7%	7%	7%	Average percentage of opening balance PP&E and intangibles
CAPEX	Percentage (%)	7%	7%	6%	7%	7%	7%	Average percentage of Revenues
PP&E	Percentage (%)	23%	22%	21%	20%	20%	21%	Average percentage of total PP&E and intangibles
Intangibles	Percentage (%)	77%	78%	79%	80%	80%	79%	Average percentage of total PP&E and intangibles

D&A	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F
Opening balance (PP&E + Intangibles)	Value (M€)	3,456	3,392	3,418	3,416	3,454	3,515
CAPEX	Value (M€)	(212)	(254)	(232)	(284)	(300)	(316)
D&A	Value (M€)	275	229	234	245	239	245
Closing balance (PP&E + intangibles)	Value (M€)	3,392	3,418	3,416	3,454	3,515	3,585

Appendix 14: Capital Structure Assumptions

Capital Structure	Notes/Unit	2022F	2023F	2024F	2025F	2026F	2027F	Assumptions
D/(D+E)	Percentage (%)	41%	42%	42%	43%	43%	42%	Average capital structure
E/(D +E)	Percentage (%)	59%	58%	58%	57%	57%	58%	Average capital structure
Long-term debt	Percentage (%)	81%	79%	81%	79%	80%	80%	Average percentage of total debt
Short-term debt	Percentage (%)	19%	21%	19%	21%	20%	20%	Average percentage of total debt

Appendix 15: Risk Free Rate Estimation

Risk Free Rate	Source
Survey Estimates	
RFR - France	0.80% Fernandez (2021)
France Government Bond Yields	
RFR	1.56% Refintive Eikon (May, 2022)

Appendix 16: Beta Estimation

Beta		Source
Pure Play Method - Integrated Industry		
Unlevered beta	1.34	Damodaran (2022)
Unlevered beta corrected for cash	1.43	Damodaran (2022)
D/E	46.01%	
Tax rate	27.50%	
Levered beta	1.91	
Historical (Regression)		
Raw beta	1.97	Bloomberg (May, 2022)
Blume adjusted beta	1.65	

Appendix 17: Equity Risk Premium Estimation

Equity Risk Premium		Source	
Equity risk premium	4.73%	Damodaran (2022)	
Country Risk Premium (France)	0.49%	Damodaran (2022)	
Total equity risk premium	5.22%		
Forward-looking			
Required ERP	5.80%	Fernandez (2021)	
Historical adjusted default spread from Damodaran			
Region	ERP	Default spread	% of sales
Europe (France)	4.73%	0.42%	36%
ASPAC (China)	4.94%	0.60%	31%
IMEAT (Saudi Arabia)	4.94%	0.60%	9%
Americas (US)	4.24%	0.00%	24%
EPR weighted			5.09%

Appendix 18: Cost of Equity Estimation

Cost of Equity	
CAPM	
Risk free rate	0.80%
Beta	1.65
ERP	5.09%
Cost of equity	9.18%

Appendix 19: Cost of Capital - WACC

WACC Method	2022F	2023F	2024F	2025F	2026F	2027F	Terminal
Cost of Equity							
RFR	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
Beta	1.65	1.65	1.65	1.65	1.65	1.65	1.65
ERP	5.09%	5.09%	5.09%	5.09%	5.09%	5.09%	5.09%
Re	9.18%						
Cost of Debt							
rd	3.27%	3.27%	3.27%	3.27%	3.27%	3.27%	3.27%
tc	27.50%	27.50%	27.50%	27.50%	27.50%	27.50%	27.50%
After-tax rd	2.37%						
WACC							
Weight of Equity	59%	58%	58%	57%	57%	58%	68%
Weight of Debt	41%	42%	42%	43%	43%	42%	32%
Pre-tax WACC	6.78%	6.72%	6.69%	6.61%	6.66%	6.69%	7.32%
WACC	6.42%	6.35%	6.32%	6.22%	6.28%	6.32%	7.03%

Appendix 20: Long-term growth rate

Stable Growth Model	2022F	2023F	2024F	2025F	2026F	2027F	Terminal
Capex	212	254	232	284	300	316	266
D&A	275	229	234	245	239	245	245
ΔNWC	(107)	(17)	(17)	(9)	(48)	(54)	(42)
EBIT (1-t)	188	308	432	453	472	532	398
Reinvestment Rate	-91.0%	2.9%	-4.4%	6.5%	2.6%	3.1%	-5.2%
ROE	4.0%	6.8%	9.0%	8.9%	8.7%	9.4%	7.8%
g							-0.4%
Dividend Sustainable Growth Rate							
Net income (NI)	176	310	428	443	453	513	387
Dividends (D)	88	155	214	221	227	256	194
Revenues (R)	2,835	3,472	3,759	4,062	4,387	4,741	3,876
Assets (A)	10,323	10,969	11,567	12,360	12,719	13,207	11,858
Shareholder's Equity (E)	4,381	4,536	4,750	4,971	5,198	5,454	4,882
(NI - D)/E	2%	3%	5%	4%	4%	5%	4%
ROE	4%	7%	9%	9%	9%	9%	8%
NI/R	6%	9%	11%	11%	10%	11%	10%
R/A	27%	32%	32%	33%	34%	36%	33%
A/E	236%	242%	244%	249%	245%	242%	243%
g							0.31%

Economic Factors	Europe	ASPAC	IMEAT	Americas	Sum
Percentage of sales	36.0%	31.0%	9.0%	24.0%	100%
GDP growth * %Sales	0.6%	1.4%	0.4%	0.6%	3.01%
Inflation rate * %Sales	0.8%	1.0%	0.5%	0.8%	3.06%
g					Between: 3,01%-3,06%

Appendix 21: Free Cash Flow to the Firm Method

Enterprise Value	2022F	2023F	2024F	2025F	2026F	2027F	Terminal
EBIT	259	425	596	624	651	734	
Tax	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	
+EBIT(1-t)	188	308	432	453	472	532	
+D&A	275	229	234	245	239	245	
-ΔNWC	(107)	(17)	(17)	(9)	(48)	(54)	
-CAPEX	212	254	232	284	300	316	
FCFF	359	300	451	423	460	516	430
Enterprise Value	9,876	10,503	10,848	11,043	11,287	11,511	10,995
Net Debt	(1,410)						
Equity Value	8,466						
No. of issued Shares (M)	262						
Price per Share	€ 32.33						
Upside Potential	24%						

Appendix 22: Flow to Equity Method

Equity Value	2022F	2023F	2024F	2025F	2026F	2027F	Terminal
FCFF	359	300	451	423	460	516	430
Interest Expense(1-t)	84	71	76	82	91	91	82
Net Borrowing	(541)	235	227	380	21	106	194
FCFE	(266)	463	601	721	391	530	541
Equity Value	7,925	8,652	8,941	9,104	9,152	9,566	9,035
No. of issued Shares (M)	262						
Price per Share	€ 30.26						
Upside Potential	16%						

Appendix 23: Adjusted Present Value Method

Adjusted Present Value	2022F	2023F	2024F	2025F	2026F	2027F	Terminal
FCFF	359	300	451	423	460	516	430
Total debt	2,985	3,220	3,446	3,826	3,847	3,953	3,659
Tax shield	27	29	31	34	35	36	33
PV(Tax Shield)	1,006	1,038	1,043	1,045	1,043	1,042	1,006
PV (Explicit period of Business Cash Flow)	9,190	9,808	10,145	10,334	10,571	10,788	10,273

Unlevered Enterprise Value	10,195
Net Debt	(1,410)
Equity value	8,785
No. of issued Shares (M)	262
Price per Share	€ 33.55
Upside Potential	29%

Appendix 24: Dividend Discount Model

Dividend Discount Model	2022F	2023F	2024F	2025F	2026F	2027F	Terminal
Dividends	88.09	154.81	213.91	221.45	226.75	256.43	214.67
Equity value	3,126	3,413	3,557	3,650	3,743	3,839	3,582
No. of issued Shares (M)	262						
Price per Share	€ 11.94						
Downside Potential	-54%						

Appendix 25: Peers selected

SARD Variables										
SARD Rank	Company	Ticker	Market Cap (€ Bn)	ROE	Debt/ EBITDA	EPS	EBIT Margin	Geo.	Publicly traded	Selected Peer
11	Accor SA	AC FP	7.42	1.40%	7.51	0.64	5.74%	EUR	Yes	
12	Choice Hotels International In	CHH US	7.25	134.18%	1.89	6.30	42.12%	US	Yes	Yes
13	Wyndham Hotels & Resorts Inc	WH US	7.13	31.66%	3.24	3.74	32.51%	US	Yes	Yes
14	Whitbread PLC	WTB LN	6.70	1.08%	8.44	0.21	2.04%	UK	Yes	Yes
15	Marriott Vacations Worldwide Corp	VAC US	5.96	9.14%	6.92	2.87	15.48%	US	Yes	Yes
16	Hilton Grand Vacations Inc	HGV US	5.77	17.70%	4.73	2.79	20.56%	US	Yes	Yes
17	Hyatt Hotels Corp	H US	9.53	6.52%	4.26	2.11	3.67%	US	Yes	Yes
18	Huazhu Group Ltd	HTHT US	9.63	14.28%	-52.58	-0.78	0.24%	CN	Yes	x
19	Travel + Leisure Co	TNL US	4.55	-85.89%	6.73	4.16	20.00%	US	Yes	x
20	Asset World Corp PCL	AWC TB	4.30	6.12%	7.65	0.10	53.14%	TH	Yes	x
21	Indian Hotels Co Ltd	IH IN	3.59	8.73%	3.62	1.49	17.40%	IN	Yes	x
22	InterContinental Hotels Group	IHG LN	11.47	-12.32%	3.45	2.35	20.51%	UK	Yes	x

Company	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Accor SA	2.83	15.80	17.62	20.93
Choice Hotels International In	4.94	18.90	20.32	24.35
Wyndham Hotels & Resorts Inc	4.11	15.34	19.17	23.82
Whitbread PLC	2.92	12.69	24.41	28.69
Marriott Vacations Worldwide Corp	1.91	9.64	11.32	15.07
Hilton Grand Vacations Inc	2.63	9.14	12.49	15.94
Hyatt Hotels Corp	2.59	18.60	35.06	38.21

Appendix 26: Relative Valuation

EV/Revenue	2022F	2023F
EV/Revenue PEER	3.18	3.18
Revenues	2,835	3,472
EV	9,020	11,047
Net Debt	(1,556)	(1,410)
Equity Value	7,464	9,637
No. of issued Shares (M)	262	262
Price per Share	€ 28.50	€ 36.80
Upside Potential	9%	41%

EV/EBIT	2022F	2023F
EV/Sales PEER	20.46	20.46
EBIT	259	425
EV	5,299	8,703
Net Debt	(1,556)	(1,410)
Equity Value	3,742	7,292
No. of issued Shares (M)	262	262
Price per Share	€ 14.29	€ 27.85
Upside Potential	-45%	7%

EV/EBITDA	2022F	2023F
EV/EBITDA PEER	14.05	14.05
EBITDA	534	654
EV	7,510	9,193
Net Debt	(1,556)	(1,410)
Equity Value	5,953	7,783
No. of issued Shares (M)	262	262
Price per Share	€ 22.74	€ 29.72
Upside Potential	-13%	14%

P/E	2022F	2023F
P/E PEER	24.34	24.34
Earnings	310	428
Equity Value	7,537	10,415
No. of issued Shares (M)	262	262
Price per Share	€ 28.78	€ 39.77
Upside Potential	10%	53%

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%