Financial and Economic Viability of a Hotel in Las Palmas de Gran Canaria

Master's in finance

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2019

This document named '***Financial and Economic viability of a Hotel in Las Palmas de Gran Canaria'***, has been done by Javier Arrazola Perera and supervise by Miguel Arjona Torres .

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Chapter I

Introduction

Chapter 1. Introduction

1.1 Objective

The stable tourism in Las Palmas de Gran Canaria and the lack of 4 stars in the old town makes the opportunity to happen to create a hotel that offers something different to the clients in the capital.

The objective of this project is to study and determine the viability of a new hotel in Las Palmas de Gran Canaria. I will analyze the economic and financial viability of buying a building in Vegueta and convert it into a hotel.

1.2 Author and Tutor

The author of the project is Javier Arrazola Perera, student at the master's in finance of the ICADE Business School.

The tutor of the project is Miguel Arjona Torres, teacher at ICADE Business School

1.3 Localization

The hotel is going to be located in Vegueta. This location is perfect for tourism in the capital of the city and also for people who goes to Las Palmas for working reasons because is one of the most important locations of the city.

The buildings that are located in the street of Vegueta had a unique structure with a "Patio Canario" in the center of the building. The Hotel will have this structure.

Every tourist that goes to visit the capital of the island goes to the Old town of the city to see how the houses where in the past. Only few Buildings have the structure of a Patio Canario inside. One of the most famous places to visit in Las Palmas is "La casa de Colón", which has a Patio Canario that is emblematic for the tourist.

Many tourists will like the Value proposition on the Hotel with a canarian structure and this location is perfect for implementing this strategy and more that will be explain during the document.

Chapter II

Hotel Sector in Las Palmas

CHAPTER II. HOTEL SECTOR IN LAS PALMAS

In this chapter, all the main information is taken from the Cabildo de Gran Canaria.

2.1 Evolution of the sector and Tourism

The Canary Islands are, after Catalonia, the second preferred autonomous community among international tourists visiting Spain. This group of volcanic islands in the cost of Africa has become one of the most attractive places in to visit in Spain for many of the European tourism. Many north European countries such as United Kingdom or Germany, have chosen the Canary Islands as their place to have a nice vacation. This is due to the great subtropical climate of the island that gives the privilege to the islands to have a temperature in winter that goes from 16 to 25 degrees and in summer from 26-32 degrees average. In addition, it has a culture different from the rest of Spain and a landscape that is unique. Its islands have a lot of different type of landscape to offer to the tourism, such as beaches, sand, mountain with typical canarian flowers and also Volcanos and deserts of volcanic rock.

In Spain, these islands are known as the Fortunate Islands due to the climate and the capacity of enjoying the sun all the year in addition to its beautiful landscape. These makes the Islands also a vocational objective for the mainland of Spain. The tourism in winter is mainly from the northern countries of Europe such as Germany, United Kingdom or Norway and in summer the national tourism increases. Theses is something that the canarian people know and are actually exploiting this fantastic touristic destination. The tourism is very important for the island and this sector generates above 35% of the employment directly or indirectly in the island.

In the islands, the Hotel sector plays an important role for the tourist area. Around the 60% of the tourism stays in Hotels while they visit the island. Most of the Hotels are 4 – star hotels. A very significant figure is also that the occupancy is usually around 80% throughout the year, being Gran Canaria and Tenerife the most visited islands of the 8.

The Hotels in the islands do not only have as clients the national tourism form the mainland Spain and the international tourism, which is the main one, but also, they have many clients from inside the islands. The local people from the Canary Islands visit other islands for there vacations and also go to Hotels of there own island to enjoy of a better weather of this little paradise. This is because even do they are small islands in dimension, they have a microclimate, having a better weather in distance of less than 40 km. For example, in Gran Canaria, Las Palmas has usually worst weather than the south of the island due to the clouds that stay in the capital because of the mountains.

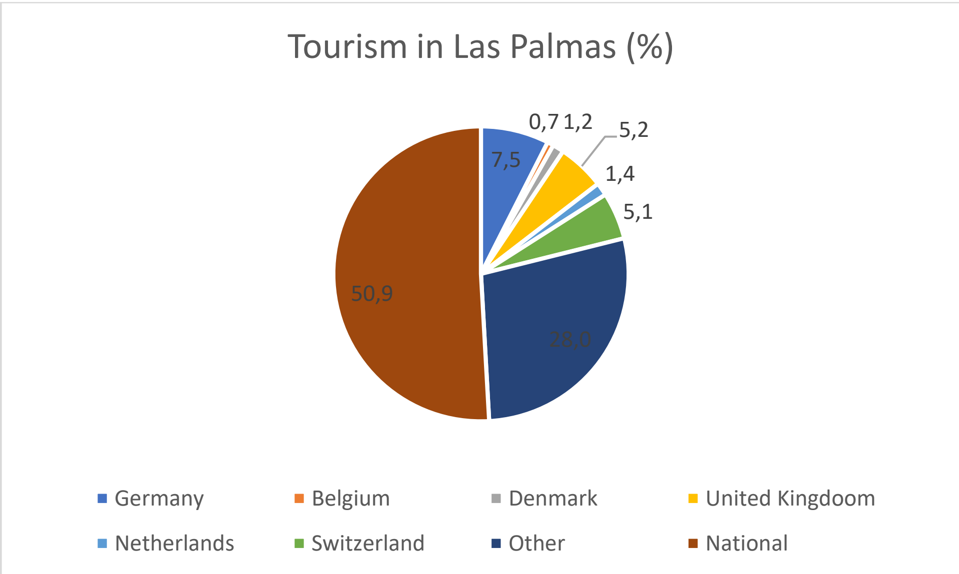
The average night occupancy for tourists is of 4 nights and the main visited areas are the municipalities of San Bartolomé de Tirajana and Mogán, in Gran Canaria, and Adeje, in Tenerife stand out. [1] [2]

The hotel sector in Gran Canaria has been increasing for the last 10 years. The tourism in the island is mainly from northern countries and specially Germany and less than a 30% of national tourism. In the capital of the island this change, do mainly for people who goes to Gran Canaria not only on holydays but also to work. In Las Palmas de Gran Canaria the national tourism is 50% of the total turismo in the city.

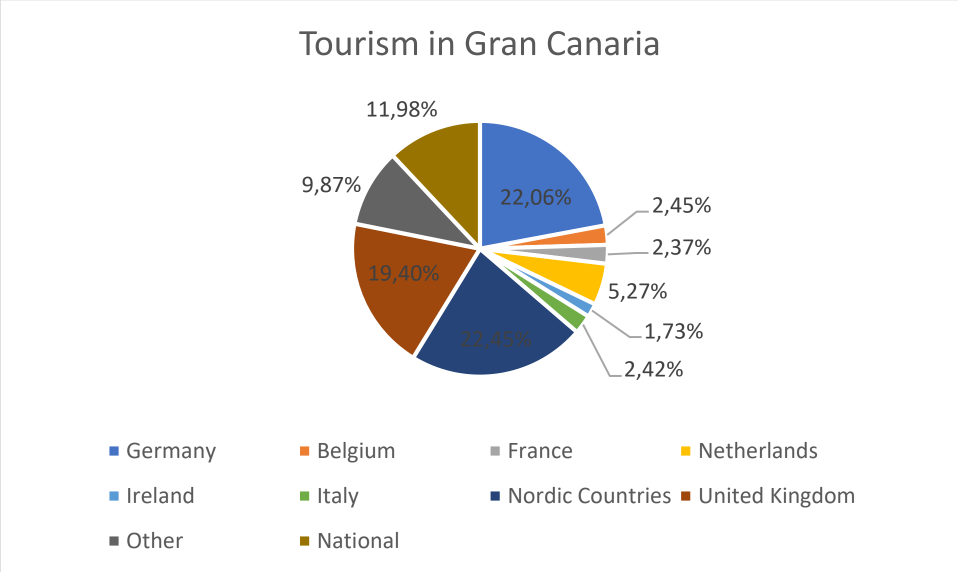
Even do is a small island with less than 40 km in between the touristic area in the south and the main city, the tourism in both parts of the islands are not the same.

The holiday tourism is much higher than the one that comes to work to the city. This is something that influence in the occupation of the hotels. In the south, the media is of 86% of occupation and with a normal duration of 8.6 days. In Las Palmas the media is of 56% and with a duration of 3.5 days. [2]

These graphs show the different precedence of the tourism in both places:



Graph & Figure 1 – Tourism in Las Palmas



Graph & Figure 2 – Tourism Gran Canaria

As the graphs show, due to the different type of tourism that you have in both parts of the island, the strategic a hotel will take will depend on where is located. These graphs are from the year 2017, where the national tourism in gran Canaria was of 12% while in Las Palmas was of more than 50%.

The following table shows the most visit places in the capital of the island.

Principal Touristic Resources		
Indicator	2017	Change since 2016
Casa de Colón	116.941	9,19%
Jardín Canario	116.300	17,80%
Museo Élder de la Ciencia y la Tecnología	90.435	-
Museo Diocesano de Arte Sacro y Catedral	84.784	6,17%
Museo Canario	34.614	9,16%
Case Museo Pérez Galdós	31.212	-3,68%
Fundación Martín Chirino (Castillo de la Luz)	19.896	26,13%
Museo Néstor	8.297	-7,36%
Teatro Pérez Galdós	7.826	1,06%
Auditorio Alfredo Kraus	7.096	35,08%
Castillo de Mata	4.608	-42,48%
Casas Consistoriales	1.277	-16,97%

Table 1- Most visit places

“La casa de Colón” Is the number one visit place in Las Palmas de Gran Canaria. This is an important data to consider if the Hotel chosen is in Vegueta, right next to the most visit place in the city. [2][3][14]

2.2 Competitors

The main competitors are going to be the hotels that are in the capital of the island.

This table shows the hotels in the city:

Hotels				
*	**	***	****	*****
7 Soles	Alcaravaneras	Aloe Canteras	AC Gran Canaria	Cristina Las Palmas
Bora Bora The Hotel	Bajamar	Astoria	AC Iberia Las Palmas	Santa Catalina
Falow	Blanca Paloma	Atlanta	Best Western Plus Hotel Cantur	
Guacamayo	Idafe	Boji	Concorde	
Kasa	Las Palmas Urban Center	Faycan	Exe Las Canteras	
Los Palmeros	Majorica	Alisios Canteras	Fataga	
Madrid	Olympia	Las Lanzas	NH Imperial Playa	
Miraflor	Pujol	NH Playa Las Canteras	Reina Isabel	
Navarro	Valencia	Parque		
Pérez	The Cathedral	Puerte Canteras		
Perojo		Verol		
Plaza		Rosalia		
Sea of Clouds		Wavia		
Tamadaba		La Maresía		
Turquesa		Doña Luisa		
España		Bellasombra Suites		

Table 2 – Hotels in Las Palmas

FUENTE. LPAVISIT.

The table shows all the hotels in Las Palmas and the stars they have. As we can see, there are only two hotels with 5 stars that are the most important hotels in the capital.

For the forecast of the hotel we will use information about Hotel Cristina that they have provided to our project.

Hotel Cristina has a normal occupancy of 50% and a peak in the months of January and February that rises to 85%. [3]

The main competitors will be the ones that have a similar price and the same type of clients.

In the old town of Las Palmas there are not 4 stars Hotels which is an opportunity for a new business to be created and attract new clients. [2]

2.3 Regulation

The "Confederación Española de Hoteles y Alojamientos Turísticos" does not have a national system for the classification of each hotel. Each Autonomous Community of Spain has their own regulation and laws to implement. The differences in between each Autonomous Community are only few. The hotel must ask for the classification that will maintain while the requirements are taken placed.

The general requirements no matter the number of stars the hotel has are the following: the system of fire protection and soundproofing of all the installations; the maximum prices of the services that the hotel has the maximum prices of the services that must be exposed at the reception in a visible place as well as the obligation to have a price list in the room of the extra services (for example, telephone, laundry, garage). The hotel must also display a standard plate with the category at the main entrance.

A hotel is a commercial establishment that, under an economic operating unit, offers accommodation, with or without other complementary services, according to its category. It can occupy the whole or an independent part of a property, establishing an exclusive use of its services, as the entrances, elevators, stairs, and other endowments, and meets the technical and equipment requirements established in the present arrangement.

To carry out the accommodation activity, it will be a prerequisite to obtain an authorization granted by the competent authority of the Canary Islands Government, who will establish the classification, modality and category of the establishment. On the outside of the main entrance, in a very visible place, it will be obligatory to display a plaque stating the modality and category in which the establishment has been classified.

The reservations must be confirmed by any system that allows its record in which the agreed price will be included.

At the request of the client, portable extra beds can be installed in the rooms, not being able to perceive more than fifty percent of the price of the accommodation for the the first extra bed installed and thirty percent for the second.

The company may charge the complementary services used by the clients in the clients account, after signing the invoice. [5]

For the classification of star, the requirements are higher while the number of stars increment.

These tables show the conditions that a Hotel has to have depending on the number of stars:

Nº of Stars	Double Room	Single Room	Bath or Shower	Bath & Shower	Elevator	Bar
*	12 m2	7 m2	3,5 m2	X	YES	X
**	14 m 2	7 m2	3,5 m2	X	YES	X
***	15 m2	8 m2	3,5 m2	X	YES	YES
****	16 m2	9 m2	X	4,5 m2	YES	YES
*****	17 m2	10 m2	X	5 m2	YES	YES

Table 3 – Starts requirements 1

Nº of Stars	Heating	Air conditioning	Safe service	Safe Box Service	Safe in Room	Telephone in Room
*	YES	X	X	X	X	X
**	YES	X	YES	X	X	YES
***	YES	YES	X	YES	X	YES
****	YES	YES	X	X	YES	YES
*****	YES	YES	X	X	YES	YES

Table 4 – Starts requirements 2

In Las Palmas de Gran Canaria, there are not many 4-star hotels. Considering the requirements needed and he type of users that the hotel wants to attract as we will see in the chapter 4 of the project, a 4 – star hotel will be the one considers for this project.

Using the model of a 4 - star hotel, we want our clients to feel a quality service and an idea of a canarian typical house. Due to the dimensions of the building chosen in chapter 3, a 4 star hotel is the best option for optimizing the hotel structure, with a 5 star hotel the number of rooms will decrease and the price of the rooms will be higher, that's why a 5 star hotel is not what the business model is looking for, with a 5 star hotel the use of lower price than and 4 star competitors to penetrate in the market will not be as productive as it will be with a 4 star hotel.

After deciding that we are going to use a model for a 4 - star hotel, there are other regulations that has to have a hotel to become 4 stars.

- Different entrance for clients and workers.
- A telephone for clients to call
- Have an elevator for every 2 floors.
- Hall of 1,60 meters
- Stairs for clients of 1,40 of wide and for personal of 1,10. Also a stair for fires.
- Social room (living room), dining room and bar.
- Kitchen, refrigerator, wineries and pantries.
- Room for luggage
- 30% for client's cars
- Air conditioning in common areas and rooms.
- Telephone at room
- WIFI and computers
- Luggage service
- Room service
- Lunch service and Bar service
- Sanitary requirements
- Laundry service

Chapter III

BUILDING CHOSED

CHAPTER III. BUILDING CHOSED

3.1 Building

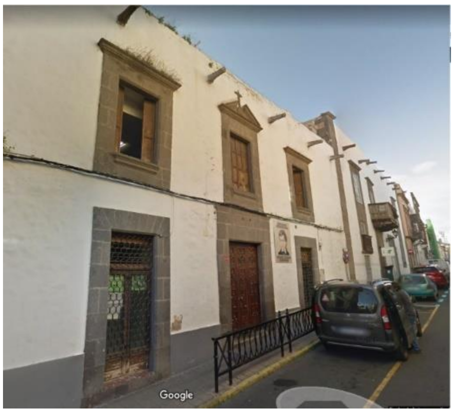
Choosing the correct building is essential for the business model choose to work correctly and have the appropriate strategy. For the Business model that has as value proposition the canarian aspect as I will show in the chapter 4 of this work, a Building situated in Vegueta is perfect for the procedure of the Hotel. As we saw in the analysis of the tourism, la "Casa de Colón" is the most visit place in Las Palmas de Gran Canaria and is near to the Building that has been chosen for this project.

The hotel would be an urban hotel that is attractive for tourism and also for people who goes to the city to work.

The building is located at Calle Castillo n.11. Vegueta. 35001. Is a big building in an area where the part of the buildings that are in the street cannot be changed under a reform. The building has 1370 meters squared constructed. Even do form the outside there are only 2 visible floors, the building has 4.

Taking into account the 4-star dimensions, the hotel will have 40 rooms all of them double rooms. Each double room with a total of 20.5 meter squared. In total the rooms will be 820 meters squared in rooms.

The building has 1370 meters squares. The remaining will be of 550 meters squared for the bar, kitchen, reception, halls…



Graph & Figure 3 - Image building

This building at the past had a Patio Canario inside. The reform that the owner did to make it become a school make the Patio Canario disappear.

Graph & Figure 4- image Patio Canario

With the reform the Hotel will have a look similar to the one in the picture.

The Patio Canario where buildings that had the inside part with a garden and any roof. This garden is surrounded by "balcones Canarios" that are made of wood and are really nice and typical canarian for tourist to visit.

3.2 Number of stars

Taken into consideration the size of the building and the location, the hotel will have 4 stars. This building is big enough to have the parameters required to become a 4 stars hotel. The hotels in the area and the lack of competitors of 4 stars makes this an opportunity to have a 4 - star Hotel in the old town of Las Palmas.

The tourism in the area is really high and is stable being always around 55% of occupancy of the Hotels. In the old town of Las Palmas there is a five - star Hotel and several three - star hotel but not a good 4 - star hotel. This is an opportunity for the business.

3.3 Price of the building

For seeking the price of the building there have been several methods done. First of all, looked at idealista similar buildings to know the price per meter squared.

These building are located near the hotel and have similar conditions:

Graph & Figure 5- Similar Building 1

Graph & Figures 6- similar Building 2

These buildings are similar to the one that I have decided to use. The buildings are also located in the old town and have similar proportions to our hotel. The main difference is that our Hotel has the opportunity to have a Patio Canario in the inside of the building. [6]

To continue, I contact several Real State businesses and one of them gave me the price at which they will sell the building. The price of the building is around 2.5 million euros because he flat in that area is around 1800€ the meter squared. In this project we will consider a price of 2 million because of the reforms that have to me maid to convert this building, that nowadays is a school, into a 4 - star hotel. Considering the huge investment made for this operation, 2 million euros is a good price for both parts.

3.4 Price of the reform

The reform is going to be a big inversion. The price would be around 822 thousand euros. The price of the reform will be of 600€ per square meter. This is an estimation done with the help of a canarian construction company named “Construcciones MAEDI”. The building has as it has been already said 1370 meter squared and the reform has to change what nowadays is a school into a canarian looking hotel. Buying the building and the reform including also the price of the furniture will make an initial investment of 3 million euros.

The reform will be for each of the floors and the center of the building remaining as a Patio Canario. In the roof the reform will include a Chill – out with a small swimming pool. The climate of the island is perfect for having a chill out in the roof and getting some extra benefit from it. Other Hotels in the island have already use this idea.

Chapter IV

BUSINES MODEL

CHAPTER 4. BUSINESS MODEL

4.1 Definition

The business model is the bases in which the business is going to be created and how is going to acquire value.

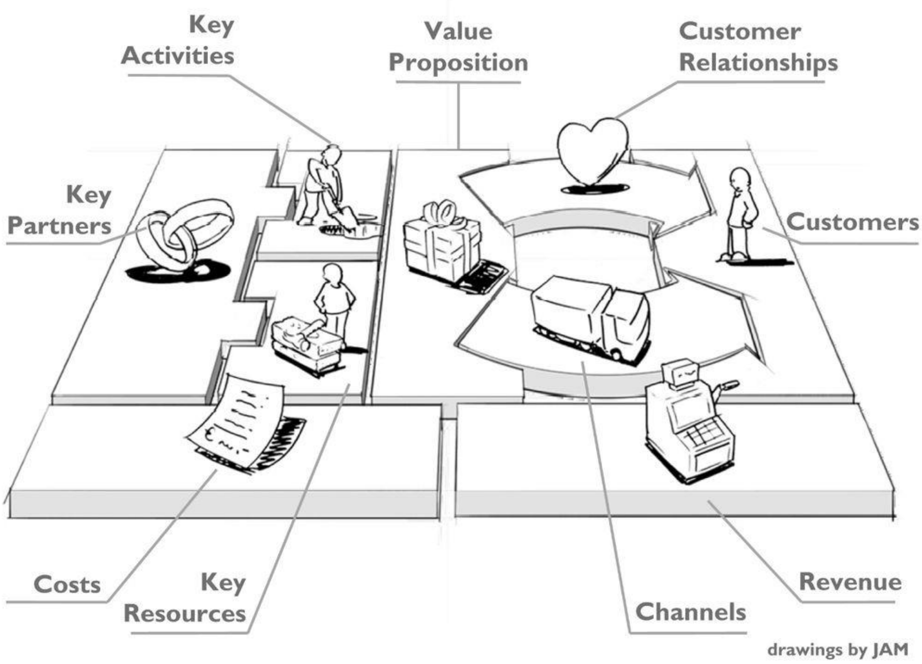
4.2 Objective

The objective will be to determine the key activities needed to a hotel of these characteristics in Las Palmas de Gran Canaria.

4.3 Methodology

The model that is going to be use is the Canvas model of Alexander Osterwalder. In this model we describe the business using 9 key points that are the ones that reflect the logic of the business to get the income expected. This model covers the 4 main aspects of a business.

These four principal areas are: customers, infrastructure, supply and economic viability. [7][8]



Graph & Figure 7– Canvas
SOURCE WWW.MÉTODOCANVAS.COM [7][8]

The 9 points of the canvas model:

1. **Customers**
   A company serves one or several market segments.

2. **Value Proposition**
   Its objective is to solve customer problems and satisfy their needs through value propositions.

3. **Channels**
   The value propositions reach customers through channels of communication, distribution and sale.

4. **Customer relationship**
   Relations with customers are established and maintained in a independent in the different market segments.

5. **Revenue**
   Revenue sources are generated when customers acquire the Value proposals offered.

6. **Key resources**
   The key resources are the assets needed to offer and provide the elements described above.

7. **Key activities**
   Key activities of the business

8. **Key partners**
   Some activities are outsourced and certain resources are acquired outside the company.

9. **Cost**

The different elements of the business model make up the structure of costs

4.4 Business model

In this part of the chapter is where you can see the canvas model.

The business model is a hotel located in the main city of the island. This hotel is a urban hotel that will have as target client not only the tourism in the city but also the people who goes to the city to work. It will be considered as a 4 - star hotel because having a Bar with kitchen where to eat is attractive for many clients. As key partners this model will have the parking near the hotel, restaurants with discount for hotel members, tour guides, booking, El Corte Ingles and travel agencies. The Key partners are important for this business model because is a product in a market that it already exists and will need promotion as we will see in the project in future chapters. The customer is also important as a target, there are two type of customers, the ones that go to Las Palmas in vacation and the ones that go for work. The data from the cabildo de Las Palmas says that the people that goes to a hotel in the capital normally stays for 3-4 days.

The channels where the hotel is going to be shown is also important. In this model we have chosen to use booking, travel agencies and el Corte Ingles. Also, telephone and as we will see later in the chapter, Facebook and other social media.

In this chapter the business model will help to decide the strategies used and the most important parts of the business model to get the objectives. The value proposition is something that will distinguish the Hotel from the competitors.

<table>
<tr>
<td rowspan="2">Key partners

- Parking near the hotel
- Restaurants in Vegueta
- Tour guides
- Booking
- El Corte Ingles
- Travel Agencies
-</td>
<td>Key activities

- Rooms management
- Maintenance
- Online service</td>
<td rowspan="2">Value Proposition

- Rent of rooms in the capital of Gran Canaria.</td>
<td>Customer relationship

- Reception
- Online service
- Telephonic service
- Loyalty program
-</td>
<td rowspan="2">Customers

- Clients that are looking a hotel in the city with a good location for work.
- Clients that goes to Las Palmas for vacations.</td>
</tr>
<tr>
<td>Key resources

- The building
- Informatic system</td>
<td>Channels

- Web page
- Telephone
- Booking
- El Corte Ingles
- Travel agencies</td>
</tr>
<tr>
<td colspan="3">Cost

- Maintenance of the hotel
- Employees
- Bar</td>
<td colspan="2">Revenue

- Rent the rooms per night.</td>
</tr>
</table>

Table 5 – Business Model

4.5 KEY ASPECTS

This are the aspects of the business that are key for the model to work correctly.

As key aspects is important the key partners that we have chosen. Being a new hotel in a city where there are many hotels is difficult. One of the most Important things is to promote the hotel in touristic websites such as booking. Also, one of the things that will distinguish our hotel form competitors is the value proposition. We will offer to the clients the opportunity of staying in a typical canarian house.

4.6 MARKETING STRATEGIES

4.6.1 Business description

4.6.1.1 The Hotel

The first step for the creation of the Hotel will be chose a correct name. The name will be **Hotel Patio Canario.**

This name is appropriate because it transmits what the hotel involves. This is a hotel that recreates what old canarian houses such as “la casa de colón” were. Its breve enough to be remembered and also typical canarian to make a difference.

This name also reflects the value proposition of the Business Model and helps to distinguish from competitors.

The business will compete in the hotel sector of Las Palmas de Gran Canaria.

4.6.1.2 Situation of the hotel

The hotel will be located in Las Palmas de Gran Canaria. The direction will be: Calle Castillo n.11. Vegueta. 35001.

This is the place where all the business is taken place. This location is really near to the most visit place by tourists in the capital which is la Casa de Colón. One of the things that makes this house so attractive for tourist is the Patio Canario that has in the inside and our Hotel will have the same type of design.

4.6.2 SWOT

Originally proposed by Albert Humphrey in the 1960s, the SWOT analysis is the strategic tool by excellence. The benefit obtained with its application is to know the real situation in which the organization is located, as well as the risk involved in the market in which the business activity takes place.

The objective of the SWOT analysis is to analyze the internal and external parts of the company that may affect how the business activity will develop in order to mitigate or try to avoid those harmful parts, and enhance the strengths of the company or the company market.

The SWOT analysis is divided in two parts, the internal analysis of the organization and the external analysis.

- **Internal analysis**: describes the intrinsic situation of the company, strategies, leadership, resources, processes … It is divided in:
    - **Strengths:** Are the internal factors of the company that favor or may favor the fulfillment of the objectives of the same. Resources, skills, differentiation.
    - **Weaknesses:** They are the internal factors that harm or can harm the fulfillment of business objectives. Risk activities, lack of resources, inexperience.
- **External analysis:** Analyze the market, competitors and those socio-economic, legal, environmental factors etc ... external to the company but that may affect the development of business activity.
    - **Opportunities:** Are those factors external to the company that favor or may favor the fulfillment of the goals and objectives proposed.
    - **Threats:** Logically, those factors external to the company that harm or can impair the fulfillment of those same goals and objectives are considered threats.

4.6.2.1 Weaknesses

W01 Important initial investment for the purchase and reform

In order to go on with this project, the initial investment is a problem and the reform will be also really high, that will make the project to have a long period to recover.

W02 The number of hotels in the market

Las Palmas is a touristic area with a lot of hotels in the city. The number of competitors make it difficult to enter in a competitive sector.

4.6.2.2 Strengths

S01 Lack of hotels in the old town

In the old town of Las Palmas he buildings are protected and there are not many hotels. Being a new hotel in the area give us a potential benefit.

S02 High degree of satisfaction with tourism in the capital

The surveys carried out on tourists from Las Palmas reflect a high degree of satisfaction on the part of tourists, which causes their relatives to become users of the hotel.

S03 Image of a Canarian old building

The old canarian buildings are famous in the capital, they had a different architecture and tourist go to visit them. This hotel is located in one of them and that makes it attractive for tourism.

4.6.2.3 Threats

T01 New hotels in the area

There are new hotels appearing in the city, this is a potential threat.

T02 Hotels already existing

In this market there are already hotels that exist and are famous in the city. Starting in this market is not an eassy work.

4.6.2.4 Opportunities

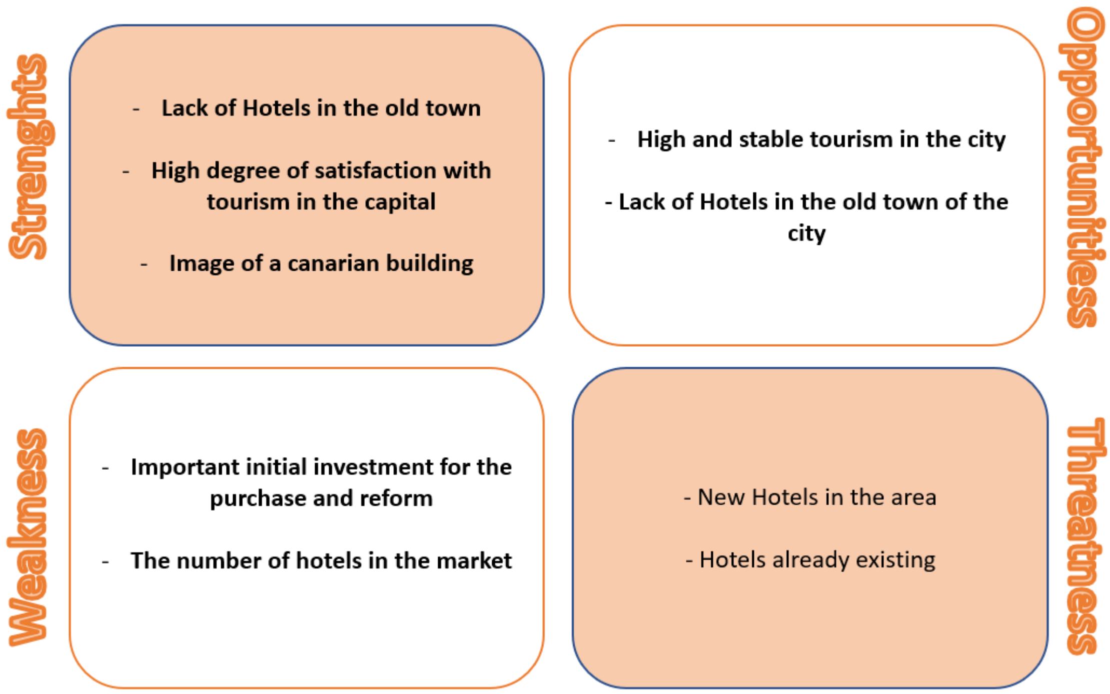
O01 High tourism in the city

The tourism in the city is high and the cabildo of Las Palmas expects to go even higher. Vegueta is the oldest part of the city and attracts many tourists.

O02 Lack of hotels in the old part of the city

The old part of the city are protected buildings. These buildings are not a hotel normally.

4.6.2.5 SWOT



Graph & Figure 8- SWOT
(Own Made)

4.7 Marketing Objectives

Once the starting situation of the company has been analyzed, a series of objectives are set that must be tried through the strategies and action plans established in this marketing plan.

The hotel has some weakness, and several are threatened, but have determined a number of strengths and opportunities that the company can take to achieve the objectives.

The following table explains in detail the objectives that are intended to comply with the development of this marketing plan. There are two types of marketing objectives: quantitative objectives and qualitative objectives. The quantitative ones are characterized by measurable achievements for the company, expressed in figures. The latter propose more generic and less tangible goals, although they are no less important or enforceable.

Cuantitative objective	**Cualitative objective**
Make the initial investment profitable within a maximum period of 10 years	Inform potential customers of the amenities a hotel in the urban area
Reach half of guests in the first exercise	Achieve a high degree of customer loyalty of the company
	Position yourself in a strategic position of advantage over competitors thanks to its typical Canarian structure

Table 6 – Objectives
(OWN MADE)

4.8 Election of strategies

The strategy is a set of decisions on actions to be undertaken and on resources to be used to achieve the final objectives proposed by the company. To carry out the strategy, it is necessary to take into account what competitors can do and external factors that may influence to achieve the objectives, such as technological, economic and social variations.

The strategy is made in order to obtain the best competitive position. From the analysis carried out until now, several alternatives have been proposed in the strategy. In this section, strategies will be proposed in order to achieve the objectives proposed by the company.

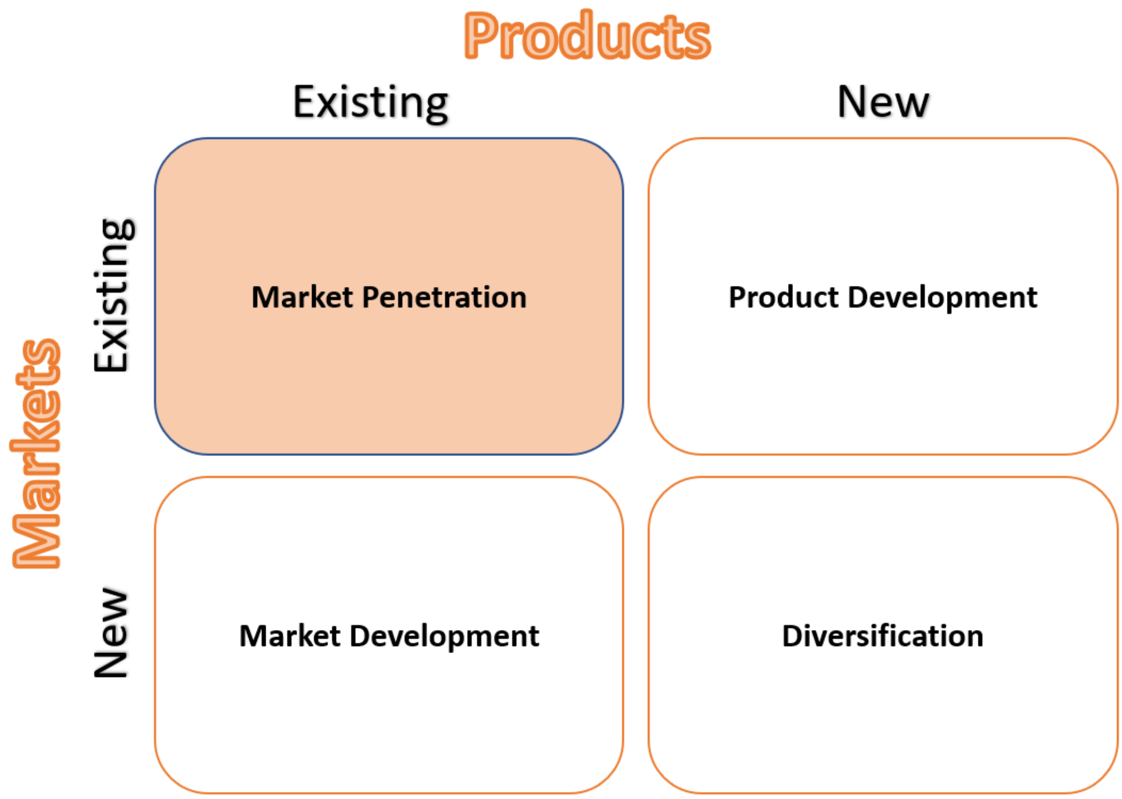
4.8.1 Portfolio strategy

The portfolio strategy should contemplate product-market alternatives within the activities of the company. This is where you begin to define the marketing strategy.

To determine the portfolio strategy to follow, the Ansoff growth direction matrix tool will be used. This matrix serves the binomial product-market according to its relevance and its novelty. It was designed by Igor Ansoff in 1965. [9]

By definition, the matrix proposes four possible growth strategies for the company:

- **Penetration in the market:** This is the safest expansion strategy; this alternative refers to increasing the market share of the company in the same market in which the company currently competes. It does not contemplate a modification in the current product, which is why it is based on an effort through the sales force and advertising to achieve a higher sales figure and thus penetrate the market in a direct and effective way.



Graph & Figure 9 – Ansoff Matrix

FUENTE ANSOFF, IGOR (1965) (OWN MADE)[9]

- **Product Development:** The second option contemplated by the Ansoff parent company is the sale of new products in current markets. In a known market a change in the tastes and interests of consumers is detected, so new products are developed that meet their needs and desires. It may also involve the modification of existing products.

- **Market Development:** In this case, the option of taking a current product and taking it to other markets different from those that are being exploited is contemplated. These markets can be international, market segments or product uses.

- **Diversification**: For the last section, a new product must be considered in a new market. It is the strategy that involves greater risk due to the lack of experience of both the product and the market

  Our company is a hotel which is an existing product in a existing market. The strategy that is most likely to use is the one of market penetration.

To be able to assume this initial investment and carry out the correct development of the product strategy:

- Key partners
- Business angels

4.8.1.1 Key Partners

Many tourists wants to have a place where the car can be station as a parking, that's why one of the most important key partners will be the parking in Vegueta. They will reserve parking for the hotel members at a cheaper price. This makes it attractive for the tourist but also to the owner of the parking that will have new clients thanks to the relationship with the hotel.

Travel Agencies: Many tourists reserve their hotels using travel agencies. Being a new hotel, is important to have travel agencies that share us to their clients. In order to become a key partner, the hotel will also promote the travel agency.

El Corte Ingles: National tourism use Viajes El Corte Ingles to decide where to go. Also, Other businesses use el Corte Ingles to program the work trips. If El Corte Ingles is a key partner, they could promote us and have more penetration in the national market.

Booking: Many tourists reserve their hotels using Booking. Being a new hotel, is important to have Booking that share us to their clients. In order to become a key partner, the hotel will also promote booking.

Vegueta Restaurant: Food is also an important aspect of the tourism. Tourist like to try canarian food and Spanish food. Having as key partners restaurants will make that the clients has a greater satisfaction.

Tourist Guide: Many tourists want to have their trip programed with guides to take them to the most important places of the island. Many of these places are near the Hotel. Tourist guides that promote us could help us to be known by clients that are looking for tours in the island.

Parking: Tourist usually rent a car. Having an easy spot where to park their vehicle is important. The old part of the islands is a place where parking is really difficult to find, that's why having as key partners the Parking of Vegueta is a good point for our clients. The key aspect of this is that the parking does not make the Hotel pay for this parking because they get benefit from the host of the hotel.

The main key partners of the business will be:

- Travel Agencies
- El Corte Inglés
- Booking
- Restaurant in Vegueta
- Tourist guide
- Parking

4.8.1.2 Business Angels

It has been stipulated as one of the objectives of the marketing plan, to obtain capital for the continuous reinvestment and expansion of the company. The "Business Angels" comes into play to help get it.

"The Business Angels" or "private investor" are individuals with a broad knowledge of certain sectors and investment capacity, which drive the development of business projects with high growth potential in their early stages of life, providing capital and added value to management.

The Business Angels help to cover the lack of financing that the entrepreneurs find in the initial stages (which are associated with high levels of risk and lack of liquidity); they differ from traditional investors and venture capital, in their involvement in the management of the company.

Like the venture capital entities, these are investors who bet on a business project, without getting involved in the day to day, but providing added value. In addition to capital provision, Business Angels tend to have high knowledge in the sectors in which they invest. This knowledge, its management capacity and its network of contacts are very valuable to promote the development of business projects that have high growth potential, in exchange for a medium-term profitability.

As a legal form they usually adopt the limited partnership. These investors usually organize themselves by forming networks. In some cases, with the aim of converting others as a form of cooperation in general. [4]

4.8.2 Positioning Strategy

The positioning of a company is essential, this means defining how it wants to be perceived by the different strategic segments decided. The company must decide with what attributes of image it wants to be identified or positioned in the mind of the consumer.

It adopts a positioning in the market based on the characteristics that differentiate the service offered by our company and the advantages we seek in the market segments.

The positioning strategy is based on an attribute of the service. It is a hotel that will like to transmit what the canarian culture is but with modern installations. This means that inside the hotel, the aspect will be as canarian old houses but all new.
The logo chosen is appropriate and with the same idea than the name. The name is a canarian name that reminds the value proposition and the logo is a “Pintadera Canaria”, something typical of the aborigines in the Canary islands and that respects the same idea than the name and the hotel. The Clothing of the Workers will also be typical canarian and that will give more value to the hotel and how it wants to be perceived by the clients.

HOTEL PATIO CANARIO

Graph & Figure 10- Name and Logo Hotel
(own Made)

4.8.3 Loyalty strategy

One of the important factors in the company is to get new users and once we have them, to retain them and not to leave the competition. Retaining and linking with users is one of the most complicated challenges that companies have, especially considering that it is a broad market with many direct competitors already established.

The following is a series of plans and services that seek in some way to link consumers once they are customers of the company to the same and avoid that in the future they opt for the competition.

4.8.3.1 Hotel Patio Canario CARD

In order to keep customers loyal, when the client registers at the hotel either online or through a telephone call, a card will be given to the hotel whenever the client wishes. Being this card used to accumulate points for the client.

Graph and Figure 11 – Hotel Patio Canario Card
(own made)

The objective of this card is to obtain points by using the hotel.

You Will get points in the card staying in the hotel.

These points can be used to get discount in associated business or in the next rooms that the client rent.

4.8.4 Marketing Mix

The last strategic level analyzed is the one that will combine the different means and marketing instruments available to the company to achieve its objectives. Marketing tools are selected that, in each specific case and always depending on the objectives set, will be more effective and appropriate (marketing mix). The main areas on which the marketing mix works are:

Graph and figure 12– Marketing Mix Diagram

- **Product**: It is all that, tangible or intangible, that is offered to a market for its acquisition, use or consumption and that is intended to satisfy a need or desire.

- **Price**: Price is called the payment or reward assigned to obtain a good or service. It is the only element of the marketing mix that produces income, because the other components only produce costs.

- **Place:** It is defined as where and how to market the product or service offered so that it is accessible to the consumer. Good management of the distribution channel allows the product to reach the right place, at the right time and in the best conditions.
- **Promotion:** marketing mix tool that includes the different activities developed by companies to communicate the merits of their products and persuade their target audience to buy.

4.8.4.1 Product and Service

The first step that has been followed to choose the product strategies is to position the product within the framework of its current market, in order to choose the most convenient strategy.

4.8.1.2 Price

The price is the element of the marketing mix that produces income; the other elements produce costs. In addition, it is the most flexible element of the mix since it can be modified quickly, unlike the others. As it was seen in the previous section, the nature of the business in the introduction phase indicates that one must be cautious with the price of the products. Based on the market prices of both competitors in Las Palmas de Gran Canaria and similar companies in other cities.

For the Price, we have chosen booking and the collaboration of Hotel Cristina for look at these prices and round up for start afterwards with the procedure of the financial viability. The high season in Las Palmas city is from November until the end of Holy Week. The main clients in high season are the Nordic and in the low season the nationals and the Senegalese.

The Hotels in Las Palmas have a price that increases depending on the number of stars. For the three stars, the price goes from 70€ to 90€. In the case of 4 stars the price goes to 120€. The five stars in the Old town are around 160€ to 190€ per night.

The Hotel will use a penetration strategy in which for the first year the price will be of 80€, really cheap for a new 4-star Hotel but will help to enter in the market.

For the following years the price will be of 120€. Even do the prices change per month, the tourism in the capital is really stable and the occupancy is always around the 50%, even do in January and February the occupancy reaches the 85%.

The breakfast in the Hotel will have a price of 10€ and in the assumptions for the revenue I consider that 1 of every 3 clients use this service. For the assumptions of the revenue I also consider that 1 of every 3 clients consume in the Chill - Out of the Hotel. [10]

4.8.4.3 Place

The place will be the travel agencies and especially booking. We will also work with Viajes el Corte Ingles.

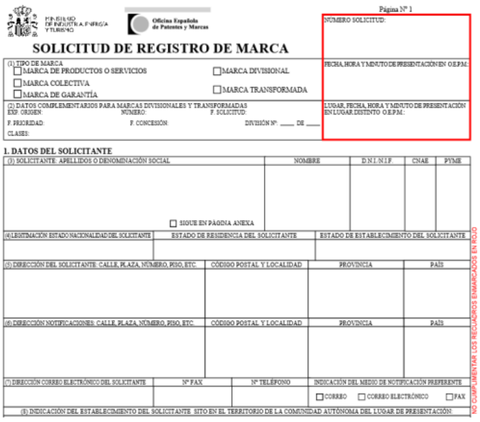
4.8.4.4 Promotion

The communication strategy is focused on meeting the objectives that have been set in the marketing plan. The company is new in Gran Canaria and the service it offers is known in a market loaded with a traditional service offer. The main objective of the strategy is to make the company's brand known. In turn, it is vital to publicize the hotel's service.

The following steps will be done:

Creation of the company:

The first step is the creation of the Brand. It will be done by OEPM (Oficina Española de Patentes y Marcas). The company Will be register with the Name and the Logo already mentioned following all the legal requirements. [11]



MINISTERIO DE INDUSTRIA, ENERGÍA Y TURISMO

Oficina Española de Patentes y Marcas

Página Nº 1

SOLICITUD DE REGISTRO DE MARCA

NÚMERO SOLICITUD:

FECHA, HORA Y MINUTO DE PRESENTACIÓN EN O.E.P.M.:

LUGAR, FECHA, HORA Y MINUTO DE PRESENTACIÓN EN LUGAR DISTINTO O.E.P.M.:

(1) TIPO DE MARCA

☐ MARCA DE PRODUCTOS O SERVICIOS ☐ MARCA DIVISIONAL

☐ MARCA COLECTIVA ☐ MARCA TRANSFORMADA

☐ MARCA DE GARANTÍA

(2) DATOS COMPLEMENTARIOS PARA MARCAS DIVISIONALES Y TRANSFORMADAS

EXP. ORIGEN: NÚMERO: F. SOLICITUD:

F. PRIORIDAD: F. CONCESIÓN: DIVISIÓN Nº: ____ DE ____

CLASES:

1. DATOS DEL SOLICITANTE

(3) SOLICITANTE: APELLIDOS O DENOMINACIÓN SOCIAL	NOMBRE	D.N.I./N.I.F.	CNAE	PYME
☐ SIGUE EN PÁGINA ANEXA				

(4) LEGITIMACIÓN ESTADO NACIONALIDAD DEL SOLICITANTE	ESTADO DE RESIDENCIA DEL SOLICITANTE	ESTADO DE ESTABLECIMIENTO DEL SOLICITANTE

(5) DIRECCIÓN DEL SOLICITANTE: CALLE, PLAZA, NÚMERO, PISO, ETC.	CÓDIGO POSTAL Y LOCALIDAD	PROVINCIA	PAÍS

(6) DIRECCIÓN NOTIFICACIONES: CALLE, PLAZA, NÚMERO, PISO, ETC.	CÓDIGO POSTAL Y LOCALIDAD	PROVINCIA	PAÍS

(7) DIRECCIÓN CORREO ELECTRÓNICO DEL SOLICITANTE	Nº FAX	Nº TELÉFONO	INDICACIÓN DEL MEDIO DE NOTIFICACIÓN PREFERENTE
			☐ CORREO ☐ CORREO ELECTRÓNICO ☐ FAX

(8) INDICACIÓN DEL ESTABLECIMIENTO DEL SOLICITANTE SITO EN EL TERRITORIO DE LA COMUNIDAD AUTÓNOMA DEL LUGAR DE PRESENTACIÓN:

NO CUMPLIMENTAR LOS RECUADROS ENMARCADOS EN ROJO

Graph and figure 13 – Solicitud del registro de marca
FUENTE - IRWIN PROFESSIONAL PUBLISHING (2008)
“THE BENEFITS OF ISO 9001”

- **Publicity:** The publicity will be used to publicize the hotel. The objective is for the public to know the existence of it. There will be a launch campaign. There will be an advertising campaign on the internet using the main virtual platforms and travel agencies. The costs of publicity will be considered in the calculations as an initial investment, inside the 3 million used for starting the company to work.

- **Internet and webpage:** It will be carried out is the development of a website of the company in which the business will be described, forms of contact time and any information that could be relevant to the client. The website will include:

  - Business description
  - News and events related to the company
  - Business Angel
  - Feedback and suggestions

  On the other hand, a user will be created in the most fashionable social networks at the time of the island to reach more people and make the company known. In the social networks, the prices and advantages of the company will be publicized.

  The social networks where the company will have its own profile will be:

  - Facebook
  - Instagram
  - Twitter

They have been selected by the degree of penetration of the three networks in the total number of social network users.

Also, the presence of our company in Booking and other travel agencies is essential for the short and long term of the company.

4.9 Conclusions of the business model

The most important part of the business model for the correct functioning of the Hotel are the value proposition that will distinguish the Hotel form competitors and the Key partners.

As Value proposition, the Hotel gives the opportunity to clients of enjoy a 4-star hotel with a unique architectural structure that will be the same as old canarian houses.

The key partners are vital as it was already explained in the document. The travel agencies and the marketing done by the Hotel is essential for the Hotel to grow in the correct direction.

The strategy done of market penetration because is a product that already exist in a market that also exists is fundamental for a good start in the Hotel live. This strategy is mainly done by using the price of a 3-star hotel for the business and use publicity in travel agencies to get people to know the Hotel.

Considering that the tourism is stable in the capital and the place where the Hotel is created, the Hotel has a good opportunity to become an important company in the capital.

Chapter V

ECONOMIC VIABILITY

CHAPTER 5. ECONOMIC VIABILITY

5.1 Introduction

In this part of the project I will evaluate if the project should be done or not depending on the financial and economic results.

First of all, I calculate the Income based on the hotel revenues that will be explained later on.

Second, I forecasted the cost base taking into account the average workforce and other overhead expenses. To continue I did a P&L for the Hotel and an Equity Cash flow.

Finally, I did a DCF for a Free Cash Flow to the firm and calculated the VAN, TIR and Payback of the project.

After all the calculations I will expose my conclusion of the project and if it is profitable or not with the results obtain.

All the calculations have been done for three possible scenarios, a standard, an optimistic and a pessimistic. The standard one is the chosen for demonstrate the results in each chapter. The optimistic and pessimistic calculations are located in the Annexed of the project.

The clients that the Hotel want to attract are tourist that visit the city and people from other islands that go to Vegueta only for work for a few days.

The study of the economic viability of a project is essential when creating a company and investing in the business because it is used to determine if the company will be profitable based on the economic performance that would be obtained.

Making use of the feasibility study can avoid making the mistake of investing in a company that has no future and will only give losses or can simply help correct errors and modify the investment criteria.

This study contemplates a series of elements that will be developed throughout the chapter with a time horizon of ten years, so that it is established how the company will be and be throughout and at the end of that period.

For the study of the three possible scenarios the only variation will be the number of registered users during each exercise and taking into account those that remain unused after some time.

For the optimistic scenario, 50% occupancy considered during the first exercise and a 65% for the rest; for the standard scenario, 40% of occupancy considered during the first exercise and a 50% for the rest; and for the pessimist, 30% considered during the first exercise and a 40% for the rest.

The prices have been set in the marketing plan. The strategy chosen for the Hotel makes the price for the first year be of 80€ and 120€ for the rest of the years.

5.2 - Credit (Mortgage)

The investment will be with a 30% of equity and 70% of debt. The 30% will be 900 thousand euros. Half of it from business angels and half from the project. The 70% of debt will be 2 million 100 euros.

The money of the debt has been calculated with a mortgage and a fixed cost. This mortgage has been calculated using Idealista for a building of this characteristics. Taking I not consideration the financial debt of this mortgage and the change in debt of each year with this condition for the calculation of the P&L, Equity Cash Flow and DCF. [6]

Mortgage				
Building Price		3.000.000 €	To Pay	
Initial Capital		900.000 €	Mortgage	2.286.522 €
Years	30 years		Mortgage Yearly	104.880 €
Interest		2,25%	Monthly	8.740 €

Year	Interest	Amortized	Total payed	To Pay
1	50.893,00 €	53.987,00 €	104.880,00 €	2.232.535,00 €
2	100.558,00 €	109.202,00 €	209.760,00 €	2.177.320,00 €
3	148.966,00 €	165.674,00 €	314.640,00 €	2.120.848,00 €
4	196.095,00 €	223.425,00 €	419.520,00 €	2.063.097,00 €
5	241.907,00 €	282.493,00 €	524.400,00 €	2.004.029,00 €
6	286.377,00 €	342.903,00 €	629.280,00 €	1.943.619,00 €
7	329.474,00 €	404.686,00 €	734.160,00 €	1.881.836,00 €
8	371.167,00 €	467.873,00 €	839.040,00 €	1.818.649,00 €
9	411.423,00 €	532.497,00 €	943.920,00 €	1.754.025,00 €
10	450.209,00 €	598.591,00 €	1.048.800,00 €	1.687.931,00 €
11	487.492,00 €	666.188,00 €	1.153.680,00 €	1.620.334,00 €
12	523.238,00 €	735.322,00 €	1.258.560,00 €	1.551.200,00 €
13	557.414,00 €	806.026,00 €	1.363.440,00 €	1.480.496,00 €
14	589.981,00 €	878.339,00 €	1.468.320,00 €	1.408.183,00 €
15	620.904,00 €	952.296,00 €	1.573.200,00 €	1.334.226,00 €
16	650.147,00 €	1.027.933,00 €	1.678.080,00 €	1.258.589,00 €
17	677.671,00 €	1.105.289,00 €	1.782.960,00 €	1.181.233,00 €
18	703.436,00 €	1.184.404,00 €	1.887.840,00 €	1.102.118,00 €
19	727.401,00 €	1.265.319,00 €	1.992.720,00 €	1.021.203,00 €
20	749.529,00 €	1.348.071,00 €	2.097.600,00 €	938.451,00 €
21	769.774,00 €	1.432.706,00 €	2.202.480,00 €	853.816,00 €
22	788.095,00 €	1.519.265,00 €	2.307.360,00 €	767.257,00 €
23	804.448,00 €	1.607.792,00 €	2.412.240,00 €	678.730,00 €
24	818.789,00 €	1.698.331,00 €	2.517.120,00 €	588.191,00 €
25	831.070,00 €	1.790.930,00 €	2.622.000,00 €	495.592,00 €
26	841.247,00 €	1.885.633,00 €	2.726.880,00 €	400.889,00 €
27	849.272,00 €	1.982.488,00 €	2.831.760,00 €	304.034,00 €
28	855.095,00 €	2.081.545,00 €	2.936.640,00 €	204.977,00 €
29	858.665,00 €	2.182.855,00 €	3.041.520,00 €	103.667,00 €
30	859.931,00 €	2.286.469,00 €	3.146.400,00 €	- €

Table 7 – Credit (Mortgage)

5.3 Balance sheet

The balance sheet is the financial statement that shows in where are the financial resources of a company invests. Is used to see the current financial situation in a moment of time. The asset base of a company is composed of those resources that are needed to carry out the business activity (to operate its business), while liabilities (which represent the external financial resources of the company) and equity (which represent the committed capital invested by the company's shareholders, plus any retained earnings) represent the financial resources the company uses to finance its asset base.

5.3.1 Assets

Are the sum of the shareholder's Equity and Liabilities and they are divided in current assets and Non-current assets.

5.3.1.1 Current Assets

They are the most liquid asset of the company. They are mainly formed by the treasury (cash and equivalents) of the company and the account receivables (client's credit) they have in their favor. They are technically assets that are going to be less than one year in the company. Inside the current assets you can find the short - term investments (categorized as available for sale or held for training).

5.3.1.2 Non-Current Assets

Is the asset base that is going to stay in the company for more than one year and has the characteristic of being less liquid. It is usually composed by productive elements that allows the company to perform with their activities. An example of the type of assets that we can find in this part of the balance sheet are the transport elements, machinery, buildings and intangible assets as Goodwill (the over price paid by a company not adjusted to the market price). In this part you can find also long - term investments that are held to maturity.

Another important characteristic of the non-current assets is that they are depreciable and that recollect this use by the depreciation or amortization. They are depreciated on a yearly bases.

5.3.2 Liabilities and Shareholder's Equity

They are the sum of the equity and the current and noncurrent liabilities of a company.

5.3.2.1 Equity

Represents the capital of the company's shareholders and the retain earnings ones the company has operated successfully at least one year. Is the capital provider that is involved in a greater risk because they have residual claims.

5.3.1.2 Current Liabilities

They are the financial obligations due in less than one year. They are the short - term debts that the company has with the suppliers (such as capital providers, product suppliers or short - term tax obligations).

5.3.1.3 Non-Current Liabilities

Composed by all the payable obligations that have to be done in more than one-year time. This are the long-term liabilities. They can be obligations with Banks or suppliers in between others.

The only difference between the short - and long - term obligations are the time in which they are due. At the end of a year, the debt of a company is reclassification to see if the debt will be for short or long term.

Year	0	1	2	3	4	5	6	7	8	9	10
Assets											
Non Current asset											
property plant and eq	2.959.058,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €	2.662.785,00 €
Building	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*	*2.900.000,00 €*
Furniture	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €	49.550,00 €
computer	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €	2.000,00 €
furniture short	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €	448,00 €
Furniture other	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*	*7.060,00 €*
(Accumulated depreciation)		- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*	- *296.273,00 €*
Current Asset											
Cash	*38.898,00 €*	*209.810,42 €*	*540.318,81 €*	*590.248,91 €*	*601.400,67 €*	*612.787,59 €*	*624.414,55 €*	*636.286,54 €*	*648.408,65 €*	*660.786,06 €*	*673.424,09 €*
Inventory	2.044,00 €	4.088,00 €	6.643,00 €	9.249,10 €	11.907,32 €	14.618,71 €	17.384,32 €	20.205,25 €	23.082,59 €	26.017,49 €	29.011,08 €
Clients	- €	49.445,33 €	91.006,67 €	92.826,80 €	94.683,34 €	96.577,00 €	98.508,54 €	100.478,71 €	102.488,29 €	104.538,05 €	106.628,81 €
Other		1.722,00 €									
	3.000.000	**2.927.851**	**3.300.753**	**3.355.110**	**3.370.776**	**3.386.768**	**3.403.092**	**3.419.755**	**3.436.765**	**3.454.127**	**3.471.849**

Table 8 – Assets Balance sheet

Liabilities

Equity											
Business angel Equity(30% inversion)	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*	*900.000,00 €*
Retained earnings	-	75.556,33 €	251.055,06 €	263.004,31 €	275.202,14 €	287.665,36 €	300.389,15 €	313.383,03 €	326.652,12 €	340.203,14 €	354.041,45 €
Dividends			99.427,00 €	196.964,00 €	256.818,00 €	318.009,00 €	380.587,00 €	444.574,00 €	510.003,00 €	576.905,00 €	645.315,00 €
Non Current liabilities											
Long term debt (70% investment)	2.100.000,00 €	2.046.013,00 €	1.990.798,00 €	1.934.326,00 €	1.876.575,00 €	1.817.507,00 €	1.757.097,00 €	1.695.314,00 €	1.632.127,00 €	1.567.503,00 €	1.501.409,00 €
Current Liability											
Short term debt		**53.987,00 €**	**55.215,00 €**	**56.472,00 €**	**57.751,00 €**	**59.068,00 €**	**60.410,00 €**	**61.783,00 €**	**63.187,00 €**	**64.624,00 €**	**66.094,00 €**
Suppliers	- €	3.406,67 €	4.258,33 €	4.343,50 €	4.430,37 €	4.518,98 €	4.609,36 €	4.701,54 €	4.795,57 €	4.891,49 €	4.989,32 €
Taxes payable											
	3.000.000	**2.927.850**	**3.300.753**	**3.355.110**	**3.370.777**	**3.386.768**	**3.403.093**	**3.419.756**	**3.436.765**	**3.454.127**	**3.471.849**

Table 9 – Liabilities Balance sheet

5.3.3 Ratios

In order to have a better view of the company, I have calculated ROA, ROE, indebtedness, Breakeven, liquidity and growth. In this block I will show ROA, ROE, indebtedness and Liquidity. The Breakeven and growth are shown later on in the project. BE in the ECF block and the growth in the P&L block.

	1	2	3	4	5	6	7	8	9	10
liquidity	-	4,61837979	10,7269669	11,3840191	11,3859075	11,3857165	11,3859541	11,3856613	11,3849693	11,3836735

Table 10 – Liquidity ratio

We can see that the Hotel generates a great liquidity ratio.

	1	2	3	4	5	6	7	8	9	10
indebtedness	70%	72%	62%	59%	57%	55%	53%	51%	49%	47%

Table 11 – Indebtedness

In the indebtedness we see that the hotel each year has less debt.

The ROE is a ratio used in finance and is calculated with the following formula:

$$\textbf{ROE} = \frac{Net\ income}{Book\ value\ of\ shareholder's\ equity}$$

ROE increases as more than optimal debt is issued for financing.

	1	2	3	4	5	6	7	8	9	10
ROE	-8%	30%	23%	24%	24%	25%	26%	27%	28%	29%

Table 12 – ROE

We can observe that from year 2 to year 10 the ROE has a great result compering it with the Ke used for the calculations of the equity cash flow.

The ROA is an indicator of how profitable a company is relative to its total assets. Roa gives an idea of how good a company is managing its assets to generate earnings and its calculated using the following formula:

$$\textbf{ROA} = \frac{Net\ income}{Total\ assets}$$

It's the rotation of the assets. Measures the efficiency of our investment.

	1	2	3	4	5	6	7	8	9	10
ROA	-2,52%	8,57%	7,97%	8,20%	8,53%	8,87%	9,21%	9,55%	9,90%	10,25%

Table 13 – ROA

We can see that the ROA increases each year. In comparation with the WACC used for the calculation of the free cash flow to the firm, the results are good for the firm.

5.4 Income

The revenues of the Hotel are mainly from the clients that get a room for the night.

For the calculations the occupancy of the Hotel will be less the first year than the rest. For the first year the price will be lower due to a penetration strategy used for trying to enter into the market. The price of the Hotels of 3 stars are of 70€ to 90€ and the ones of four stars are of 120€-135€. The five stars are of 160 to 180€.

For the first year the price selected will be of 80€ per night. This is much cheaper than the rest of the Hotels that are like our Hotel. The price for the following years is of 120€, also cheap in consideration with competitors.

Is true that the occupancy and price changes depending on the month of the year but for the calculations we have selected a media for the occupancy and a settle price instead of variation of the price. This is fine because the tourism in the capital of the island is stable with a media of 50% of occupancy all year and reaching an 85% in some Hotels in the months of January and February. The price does not vary very much with the season so an stablish price would make calculations easier.

Each of the scenarios will have a different occupancy level but the same price stablished. For the neutral one, the occupancy for the first year will be of 40% and 50% for the rest. For the Optimistic the occupancy or the first year will be of 50% and of 65% for the rest and finally for the Pessimistic the occupancy will be of 30% for the first year and of 40% for the rest.

All the scenarios will be calculated and evaluate the profitability for each of them in this chapter.

The expected growth will be of 2%.

For the calculations the breakfast has been included as a revenue from the bar service which is 10€ and assuming that 1 of every 3 clients will get this service that its mainly the breakfast price.

Also, as an assumption I have include a revenue of 8€ in the Chill – out for 1 of every 3 clients as well.

Days	365	GROWTH	2%
Price breakfeast	10		

Table 14- days, price growth

Standard			Number of rooms	40		Occupacy 1	40%		Price per room 1	80 €
						Occupacy 2	50%		Price per room 2	120 €
Year	0	1	2	3	4	5	6	7	8	9	10
Bar		19.466,67 €	24.333,33 €	24.820,00 €	25.316,40 €	25.822,73 €	26.339,18 €	26.865,97 €	27.403,29 €	27.951,35 €	28.510,38 €
Gustes		467.200,00 €	876.000,00 €	893.520,00 €	911.390,40 €	929.618,21 €	948.210,57 €	967.174,78 €	986.518,28 €	1.006.248,64 €	1.026.373,62 €
Chill-out		7.786,67 €	9.733,33 €	9.928,00 €	10.126,56 €	10.329,09 €	10.535,67 €	10.746,39 €	10.961,31 €	11.180,54 €	11.404,15 €
Total		494.453,33 €	910.066,67 €	928.268,00 €	946.833,36 €	965.770,03 €	985.085,43 €	1.004.787,14 €	1.024.882,88 €	1.045.380,54 €	1.066.288,15 €

Table 15- Standard Revenue

As it was explained before, the income generated has a different assumption for year 1 than for the rest, where the occupancy is less than the average on in the sector. For the rest of the years the occupancy is in the average. The price used is less for the first year than for the rest to try to penetrate in the market. This was the marketing strategy decided in the chapter of the business model.

5.5 Costs

This is a new business, so the variable cost cannot be calculated from previous years. For the cost I have use it as a fixed cost for the cost of employees and the suppliers. In the tables below I will explain what costs are included as suppliers.

I have calculated the number of employees that are going to be needed. The total number of employees is going to be 11. One director, two that are one for laundry and the other one for technical problems, three workers for the room services that will have different work frames. Three workers in the reception that will not work all at the same time and two workers, one for the bar and the other one for the chill – out. Bar and Chill out will not be open at the same time.

For the suppliers I have include the fix cost that can be estimated per year, such as water, light, WIFI and Telephone, Natural gas, and technician.

For the calculation of the cost in the Bar and Chill – out I have considered a cost of half the benefit form the same place. This assumption is because I will gain double the cost of acquisition. For the sales in bar I have used assumptions. One of every three clients get breakfast and the same for the use of the chill – out.

workers	Bar and Chill-out	Reception	Room	Laundry	director	Total
employees	2	3	3	2	1	11
Salary	1430	1430	1100	1100	3000	
Cost	2860	4290	3300	2200	3000	15650

Table 16- employees

As suppliers I have used as fixed cost the water, light, WIFFI and Telephones, natural gas and a technician. I have use for the assumption a average cost that is in the table below.

Suppliers	Total mensual	total anual
Water	300	3600
Luz	500	6000
Wifi y telelfono	250	3000
Gas Natural	300	3600
technician	200	2400
Total		18600

Table 17- Suppliers

Neutro				Number of rooms	40		Occupancy 1	40%		Price per room 1	80 €
							Occupancy 2	50%		Price per room 2	120 €
Year	0	1	2	3	4	5	6	7	8	9	10
Workers		190.617 €	193.476 €	196.378 €	199.324 €	202.314 €	205.349 €	208.429 €	211.555 €	214.729 €	217.950 €
Bar		9.733 €	12.167 €	12.410 €	12.658 €	12.911 €	13.170 €	13.433 €	13.702 €	13.976 €	14.255 €
Chill-out		3.893 €	4.867 €	4.964 €	5.063 €	5.165 €	5.268 €	5.373 €	5.481 €	5.590 €	5.702 €
Suppliers		18.600 €	18.879 €	19.162 €	19.450 €	19.741 €	20.037 €	20.338 €	20.643 €	20.953 €	21.267 €
Total		222.844 €	229.389 €	232.915 €	236.495 €	240.131 €	243.824 €	247.573 €	251.381 €	255.247 €	259.174 €

Table 18 – standard cost

The workers and Suppliers have been considered as fixed costs and in the other hand, the bar and chill – out as variable costs. The variable cost is really low if you compare it with the fixed cost of the business.

5.6 Depreciation, CAPEX and Working Capital

5.6.1 Depreciation

The depreciation Is an accounting concept that companies use to identify “wear and tear” and the obsolescence of the non - current assets as time goes by. It has an important financial impact in a company. This is because it allows to use in the income statement as an expense which lowers the taxable income.

In order to calculate the depreciation, I have considered the building including the final price after the reforms, the computers and three type of furniture which are long, short and other. These furniture’s are explained in the corresponding table.

	euros	years	depreciation
Building	2.900.000,00 €	10	290.000,00 €
Computer	2.000,00 €	4	500,00 €
Furniture Long	49.550,00 €	10	4.955,00 €
Furniture Short	448,00 €	4	112,00 €
Other furniture	7.060,00 €	10	706,00 €
Total			296.273,00 €

Table 19- Depreciation

As furniture for long I have included the furniture that should last for 10 years or more.

	rooms	bed	muebles	Television	Lavadora	Lavavajillas	Tables	Chairs
	40	45	45	43	1	1	20	80
Furniture long		600	200	200	200	350	100	30
cost		27000	9000	8600	200	350	2000	2400
Total							total	49550

Table 20- Furniture Long

For the furniture for short, I have included the ones that have to be renewed each year such as cups or cutlery.

	rooms	Cutlery	Cup
	40	360	160
Furniture Short		0,8	1
cost		288	160
Total		total	448

Table 21- Furniture Short

As other furniture, I have included furniture that are for long but that are in the hall or just as decoration such as some chairs, couches or tables. Other are for example pictures.

Hotel		Muebles otros	couches	tables	chairs
number		52	10	20	34
Cost		20	300	100	30
added		1040	3000	2000	1020
total					7060

Table 22- Other Furniture

I have considered to depreciate the Building, Computers and Furniture. I have divided the furniture in three. Each of the furniture is explained in the tables. The ones of short is because you will have to get more in short time and the ones in long has a longer period of use.

5.6.2 Capex

They are the investments in productive assets. They are considered as non – current.

	Rooms	40			
	Units	Price	years	total	Anual
Bed Sheets	80	10	5	800	160
Computer	4	500	6	2000	333,333333
Swimming pool					500

Table 23- Capex

I have considered as capex for the reinversion the three main things that I can use as assumption because they will be done always in any case. They are the Bed sheets, the computers and the swimming pool maintenance.

5.6.3 Working Capital

Is the difference between the current assets and current liability and represents the liquidity of a company, the liquidity risk and the operational efficiency of a company.

Years	0	1	2	3	4	5	6	7	8	9	10
Inventory	2.044,00 €	4.088,00 €	6.643,00 €	9.249,10 €	11.907,32 €	14.618,71 €	17.384,32 €	20.205,25 €	23.082,59 €	26.017,49 €	29.011,08 €
Accounts Receivables	- €	49.445,33 €	91.006,67 €	92.826,80 €	94.683,34 €	96.577,00 €	98.508,54 €	100.478,71 €	102.488,29 €	104.538,05 €	106.628,81 €
Accounts Payables	- €	3.406,67 €	4.258,33 €	4.343,50 €	4.430,37 €	4.518,98 €	4.609,36 €	4.701,54 €	4.795,57 €	4.891,49 €	4.989,32 €
Net Working Capital	2.044,00 €	50.126,67 €	93.391,33 €	97.732,40 €	102.160,29 €	106.676,73 €	111.283,51 €	115.982,42 €	120.775,31 €	125.664,05 €	130.650,57 €
Change in WC YOY	2.044,00 €	48.082,67 €	45.308,67 €	52.423,73 €	49.736,55 €	56.940,18 €	54.343,33 €	61.639,09 €	59.136,22 €	66.527,84 €	64.122,74 €

Change in Accounts Receivables	- €	49.445,33 €	41.561,33 €	1.820,13 €	1.856,54 €	1.893,67 €	1.931,54 €	1.970,17 €	2.009,57 €	2.049,77 €	2.090,76 €
Change in Inventories	- €	2.044,00 €	2.555,00 €	2.606,10 €	2.658,22 €	2.711,39 €	2.765,61 €	2.820,93 €	2.877,34 €	2.934,89 €	2.993,59 €
Change in Account Payables	- €	3.406,67 €	851,67 €	85,17 €	86,87 €	88,61 €	90,38 €	92,19 €	94,03 €	95,91 €	97,83 €
Total Change in Working Capital	-2044	- 48.082,67 €	- 43.264,67 €	- 4.341,07 €	- 4.427,89 €	- 4.516,45 €	- 4.606,77 €	- 4.698,91 €	- 4.792,89 €	- 4.888,75 €	- 4.986,52 €

Table 24- WC

In order to calculate the company's working capital investment, different efficiency ratios and assumptions were used to determine the value of current and non-current assets at the end of the year. After this first step, evolution between accounts during the year (increases or decreases) were calculated in order to determine the net working capital investment.

5.7 P&L

In order to calculate the Balance sheet and the Equity cash flow is important to do the Profit and loss statement.

The profit and loss statement are the financial statement that measures the financial activity results of a company in one year. They are based in accrual accounting; this means that recognizes the revenues and the cost without considering cash inflows or outflows.

I have calculated the P&L for the three different scenarios. The procedure for the calculations of the P&L is the following: Sales, subtract the Variable costs and you get the gross margin. Then you subtract the fixed cost and you get the EBITDA, subtract the depreciation and you get the EBIT, subtract the financial interest and you get the EBT, subtract the taxes and you get the net income.

STANDARD	Number of rooms	40	Occupancy 1	40%	Price per room 1	80 €
			Occupancy 2	50%	Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
REVENUES		494.453 €	910.067 €	928.268 €	946.833 €	965.770 €	985.085 €	1.004.787 €	1.024.883 €	1.045.381 €	1.066.288 €
COGS		- 13.627 €	- 17.033 €	- 17.374 €	- 17.721 €	- 18.076 €	- 18.437 €	- 18.806 €	- 19.182 €	- 19.566 €	- 19.957 €
Gross margin		480.827 €	893.033 €	910.894 €	929.112 €	947.694 €	966.648 €	985.981 €	1.005.701 €	1.025.815 €	1.046.331 €
Operating expenses		- 209.217 €	- 212.355 €	- 215.541 €	- 218.774 €	- 222.055 €	- 225.386 €	- 228.767 €	- 232.198 €	- 235.681 €	- 239.217 €
EBITDA		271.610 €	680.678 €	695.353 €	710.338 €	725.639 €	741.262 €	757.214 €	773.502 €	790.133 €	807.114 €
depreciation		- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €
Ebit		- 24.663 €	384.405 €	399.080 €	414.065 €	429.366 €	444.989 €	460.941 €	477.229 €	493.860 €	510.841 €
FINANCIAL interests		- 50.893 €	- 49.665 €	- 48.408 €	- 47.129 €	- 45.812 €	- 44.470 €	- 43.097 €	- 41.693 €	- 40.256 €	- 38.786 €
EBT		- 75.556 €	334.740 €	350.672 €	366.936 €	383.554 €	400.519 €	417.844 €	435.536 €	453.604 €	472.055 €
TAXES		- €	- 83.685 €	- 87.668 €	- 91.734 €	- 95.888 €	- 100.130 €	- 104.461 €	- 108.884 €	- 113.401 €	- 118.014 €
NET PROFIT		- 75.556 €	251.055 €	263.004 €	275.202 €	287.665 €	300.389 €	313.383 €	326.652 €	340.203 €	354.041 €
Taxes	25 %										

Table 25- Standard P&L

Considering our company, the revenues are the ones calculated in the income projections already explained in the project. The main revenue stream of the company is the sale of hotel rooms. Costs of good sold are the variable costs incurred by a company and represents a constant percentage of the revenue, the represent F&B (food and beverage) of the Hotel. In our case, is about a 2% of our revenues, a very insignificant cost. The operating expenses are more important in the result of the P&L for this case. It consists of 42% of the revenues for the first year and around 24% for the next years, the work force is a 92.5% of the fixed cost and the suppliers are 7.5% of the fixed cost. The depreciation expense is high, which allows the company to lower its taxable income and retain a higher amount of earnings. This is due to a high price of the building that we are depreciating. The financial interest, giving its partial deductibility lowers our taxable income as well. The net profit of the P&L is high. It represents around a 28% of the revenues. The Net profit growth per year is around 16.69% annualized.

The growth has been calculated using the time value of money formula: $354041 = 75556(1 + r)^{10}$

5.8 Equity Cash Flow and Free Cash Flow to the firm

5.8.1 WACC and Ke

The Free cash flow to equity is a measure use to see how much of the cash is available to the shareholders of the company after the expenses, reinvestment and debt are paid.

The Equity cash flow is one of the measures more used to calculate if a company doing well in their business and to see if you should invest on the company or not.

For the Hotel I have calculated the Equity cash flow for the three different scenarios in order to check the profitability of each of the inversions.

Once we have the Equity cash flow, in order to obtain the Net Present Value, we have to discount it with a type of interest. The interest is obtain doing a calculation and is called the WACC (Weighted Average Cost of Capital). The value of the company will be the present value of the discounted cash flows by the WACC.

There is a general assumption for a definition of the WACC that was made by Modigliani and Miller and Solomon who define the WACC as "the discount rate that equals the expected capitalized value of future cash flows to the value of the company".

Basically, the cost of capital is a weighted average of the cost of financing for an inversion or a business, that financing will be by debt or own resource. With this cost we can see which the risk for the shareholders is.

The formula used to calculate the Weighted Average Cost of Capital is the following:

$$WACC = K_e \times \frac{E}{D+E} + K_d \times (1-t) \times \frac{D}{D+E}$$

Where:

E= Equity

D = Debt

K_e = Cost of equity

K_d = Cost of Debt

T = Interest

For investors in companies, the WACC is an opportunity cost in the sense that it is the rate of return that they would expect to obtain if they make another investment with a similar risk.

For the companies, the WACC is a financing cost in the moment that they have to generate returns greater than or at least equal to the WACC in order to have the investors satisfy

Cost of Equity

To calculate the cost of equity (Ke), there are different methods that can be used. In order to calculate my Ke I will use the method of the Capital Asset Model (CAPM). This CAPM says that the profitability asked by an investor will be in proportion with the systematic risk that the inversion has. This Systematic risk is the one that cannot be eliminated by the effects of diversification.

This profitability will be determined by the risk-free rate of the market in addition of a prime that makes the investor want to make an inversion with more risk involved. The inversion prime will be determined by the Beta of the company which represent how sensitive is the company to the movements of the market.

$K_e = Rf + B_i * Pm$

Where:

Rf = Risk free rate

B_i = Beta of the company

Pm = Market premium

Risk free rate: The risk-free rate can be defined as the return that an investor will expect when they do an inversion that has an assured profitability. An inversion can be risk free only when the entity that guarantees the inversion is free from the risk of bankruptcy.

Market premium: The market premium is the prime that investors demand in order to invest in an asset in respect with the profitability that they will expect to obtain if they invert in an asset that is risk free.

Beta: The Betas that measures the market risk in finance have two basic characteristics that must be consider while you do the estimations. The first one is that the betas measure the added risk in a diversify portfolio and not the total risk, that's why it is possible that an inversion has a high risk as its individual risk but a low risk in terms of market risk.

The second characteristic is that they measure the assets relative risk and are standardized around 1. Using CAPM, the weight average for the market beta should be equal to 1. The Beta for a company can be determine by three variables: the type of business that they do in their exercise (such as cars, hotels, selling clothes…), the degree of operational leverage that the company has and financial leverage.

In this project, I have calculated the unlevered Beta using the Beta of other Hotel in similar conditions. The Beta has been calculates using the one of NH Hotel Group given by infrontanalytics. [15]

$$\beta = (0.51) * (1 + (1 - 0.25) * \frac{0.3}{0.7})$$

The Beta used will be 0.6739.

When calculating Ke, using the formula above the ke was of 4.7%.

In the project I decided to use a Ke using the buildup method. The Ke will be the addition of the risk free rate (rf) + the equity risk premium (erp) + Sector risk. The risk free will be the one of the Spanish bond for 10 years which is 1.648%, the equity premium has been obtain form estatistic.com which is 6.7%, the sector risk is 3.2 points above the risk free so for this project will be of 4.848.

Doing the calculations, the Ke with the buildup method will be of 13.196%

The WACC using this cost of debt is of 5.14%. This is because we have 30% of equity and 70% of debt and the interest paid in the debt is of 2.25%.

The University of New York stern school of business, and the corporate finance professor named Aswath Damodaran says that the Ke for the hospitality sector is usually near 9% and the WACC is of 6.52%. Considering that his data is in US dollars, our data calculated is around does numbers for the WACC. [12] [13] [14] [15]

5.8.2 Equity Cash Flow

The Free cash flow to equity is a measure use to see how much of the cash is available to the shareholders of the company after the expenses, reinvestment and debt are paid.

The Equity cash flow is one of the measures more used to calculate if a company doing well in their business and to see if you should invest on the company or not.

For the Hotel I have calculated the Equity cash flow for the three different scenarios in order to check the profitability of each of the inversions. In order to discount the cash flows the cost of equity is used, in this case we use the CAPM model to calculate such cost.

$$K_e = Rf + B_i * Pm$$

Standard			Number of rooms			Occupacy 1	40%		Price per room 1	80 €
						Occupacy 2	50%		Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
INVESTMENT	- 3.000.000 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Sales		494.453 €	910.067 €	928.268 €	946.833 €	965.770 €	985.085 €	1.004.787 €	1.024.883 €	1.045.381 €	1.066.288 €
COGS		- 13.627 €	- 17.033 €	- 17.374 €	- 17.721 €	- 18.076 €	- 18.437 €	- 18.806 €	- 19.182 €	- 19.566 €	- 19.957 €
Gross margin		480.827 €	893.033 €	910.894 €	929.112 €	947.694 €	966.648 €	985.981 €	1.005.701 €	1.025.815 €	1.046.331 €
Operating expenses		- 209.217 €	- 212.355 €	- 215.541 €	- 218.774 €	- 222.055 €	- 225.386 €	- 228.767 €	- 232.198 €	- 235.681 €	- 239.217 €
Ebitda		271.610 €	680.678 €	695.353 €	710.338 €	725.639 €	741.262 €	757.214 €	773.502 €	790.133 €	807.114 €
DEPRECIATION		- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €
EBIT		- 24.663 €	384.405 €	399.080 €	414.065 €	429.366 €	444.989 €	460.941 €	477.229 €	493.860 €	510.841 €
FINANCAL COST		- 50.893 €	- 49.665 €	- 48.408 €	- 47.129 €	- 45.812 €	- 44.470 €	- 43.097 €	- 41.693 €	- 40.256 €	- 38.786 €
EBT		- 75.556 €	334.740 €	350.672 €	366.936 €	383.554 €	400.519 €	417.844 €	435.536 €	453.604 €	472.055 €
TAXES		- €	- 83.685 €	- 87.668 €	- 91.734 €	- 95.888 €	- 100.130 €	- 104.461 €	- 108.884 €	- 113.401 €	- 118.014 €
NET PROFIT		- 75.556 €	251.055 €	263.004 €	275.202 €	287.665 €	300.389 €	313.383 €	326.652 €	340.203 €	354.041 €
DEPRESITATION		296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €
OWC		- 48.083 €	- 43.265 €	- 4.341 €	- 4.428 €	- 4.516 €	- 4.607 €	- 4.699 €	- 4.793 €	- 4.889 €	- 4.987 €
CAPEX		- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €
Change in debt		- 53.987 €	- 55.215 €	- 56.472 €	- 57.751 €	- 59.068 €	- 60.410 €	- 61.783 €	- 63.187 €	- 64.624 €	- 66.094 €
ECF	- 3.000.000,00 €	117.653,67 €	447.855,06 €	497.470,91 €	508.302,92 €	519.360,59 €	530.652,05 €	542.180,79 €	553.951,90 €	565.970,06 €	578.240,59 €

VAN	677.515,73 €	TIR	9%

Table 26- Standard ECF

First of all, the results of the ECF look interesting, the NPV is positive and has a good IRR, this means that the investment is interesting for the equity. The cash flows are positive even in the first year.

The project has a great generation of cash with low levels of WC and with low operating expenses and a high profit margin.

The concept of the cash flow that could affect the project would be the CAPEX due to the variability of extraordinary cost that can appear and can not be calculate as an assumption.

5.8.3 Breakeven Point

Is the level of sales of a business with which fixed cost are covered (the sales that are needed to obtain a profit of 0 monetary units).

	1	2	3	4	5	6	7	8	9	10
Break Even Point	2689	1803	1830	1858	1886	1914	1943	1972	2001	2031
% YOY	-	-32,94%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%	1,50%
Cobertura	43,51%	23,78%	23,66%	23,55%	23,43%	23,32%	23,20%	23,09%	22,98%	22,86%

	1	2	3	4	5	6	7	8	9	10
rooms per year	6181	7584	7736	7890	8048	8209	8373	8541	8712	8886

Table 27- Breakeven

Is calculated with the number of rooms sold per year and the costs.

$$Sales^{\,BE} \cdot CM\ (\%) = Fixed\ Costs$$

$$Sales\ BreakEven\ (point) = \frac{Fixed\ Costs}{CM\ (\%)} = \frac{Fixed\ Costs}{p^u - C_V^u}$$

5.8.4 DCF – Free Cash Flow to the Firm

In this block I would like to explain the free cash flow to the firm. Is going to be the one used to evaluate if we should invest in the project or not.

The FCF to the firm is the cash flow available to pay the different capital providers of the company (the debt and equity holders). Is used in the DCF to calculate the total value of the company. In order to obtain the equity value, you have to subtract the market value of debt.

Is the most used in companies that have a stable capital structure (it doesn't take into account the net borrowing incurred by the firm). In order to discount the cash flow you must obtain the WACC explained before.

STANDARD											
Year	0	1	2	3	4	5	6	7	8	9	10
INVESTMENT	- 3.000.000 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Sales		494.453 €	910.067 €	928.268 €	946.833 €	965.770 €	985.085 €	1.004.787 €	1.024.883 €	1.045.381 €	1.066.288 €
COGS		- 13.627 €	- 17.033 €	- 17.374 €	- 17.721 €	- 18.076 €	- 18.437 €	- 18.806 €	- 19.182 €	- 19.566 €	- 19.957 €
Gross margin		480.827 €	893.033 €	910.894 €	929.112 €	947.694 €	966.648 €	985.981 €	1.005.701 €	1.025.815 €	1.046.331 €
Operating expenses		- 209.217 €	- 212.355 €	- 215.541 €	- 218.774 €	- 222.055 €	- 225.386 €	- 228.767 €	- 232.198 €	- 235.681 €	- 239.217 €
Ebitda		271.610 €	680.678 €	695.353 €	710.338 €	725.639 €	741.262 €	757.214 €	773.502 €	790.133 €	807.114 €
DEPREcIATION		- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €
EBIT		- 24.663 €	384.405 €	399.080 €	414.065 €	429.366 €	444.989 €	460.941 €	477.229 €	493.860 €	510.841 €
intereses		- 50.893 €	- 49.665 €	- 48.408 €	- 47.129 €	- 45.812 €	- 44.470 €	- 43.097 €	- 41.693 €	- 40.256 €	- 38.786 €
EBT		- 75.556 €	334.740 €	350.672 €	366.936 €	383.554 €	400.519 €	417.844 €	435.536 €	453.604 €	472.055 €
TAXES		- €	- 83.685 €	- 87.668 €	- 91.734 €	- 95.888 €	- 100.130 €	- 104.461 €	- 108.884 €	- 113.401 €	- 118.014 €
NOPAT		- 75.556 €	251.055 €	263.004 €	275.202 €	287.665 €	300.389 €	313.383 €	326.652 €	340.203 €	354.041 €
DEPRECITATION		296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €
Interese*(1-T)		38.170 €	37.249 €	36.306 €	35.347 €	34.359 €	33.353 €	32.323 €	31.270 €	30.192 €	29.090 €
CAPEX		- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €
OWC		- 48.083 €	- 43.265 €	- 4.341 €	- 4.428 €	- 4.516 €	- 4.607 €	- 4.699 €	- 4.793 €	- 4.889 €	- 4.987 €
FCF	- 3.000.000,00 €	209.810,42 €	540.318,81 €	590.248,91 €	601.400,67 €	612.787,59 €	624.414,55 €	636.286,54 €	648.408,65 €	660.786,06 €	673.424,09 €
TAXES	25%										
VAN	1.273.106,91 €	TIR		13%							

Table 28- Standard FCF to the firm

The results of the FCF to the firm look interesting, the NPV is positive and has a good IRR, this means that the investment is interesting for firm. The cash flows are positive even in the first year.

The project has a great generation of cash with low levels of WC and with low operating expenses and a high profit margin.

The concept of the cash flow that could affect the project would be the CAPEX do to the variability of extraordinary cost that can appear and can not be calculate as an assumption.

5.9 - NPV, IRR and PayBack period

After making the calculations for the Equity cash flow of the different scenarios and the DCF, I have to consider in which of the scenarios is the Hotel profitable and this analysis is done using the VAN and the TIR.

5.9.1 NPV

A profitability index of an investment is the NPV or net present value. It is used to calculate the present value of one of the cash flows of an investment in a time horizon. The equation used to calculate the NPV for n periods is as follows:

$$VAN = \sum_{t=1}^{n} \frac{V_t}{(1+k)^t} - I_0$$

Where:

V_t represetns the cash flows for each period

I_0 represents the initial investment

K is the type of interes

For the ECF:

	Standard	Optimistic	Pessimistic
NPV	677.515,73 €	2.744.729,51 €	-249.162,33 €

Table 29- NPV ECF

For the Free Cash Flow to the Firm:

	Standard	Optimistic	Pessimistic
NPV	1.273.106,91 €	2.790.142,06 €	265.468,21 €

Table 30- NPV to FCF to the Firm

5.9.1.1 Conclusions NPV

The NPV obtain in the Equity Cash Flow and the Free Cash Flow to the firm are different for some scenarios. In the case of the FCF to the firm, the NPV is positive in the three possible scenarios. In the case of the ECF, is positive for the standard and the optimistic but negative for the pessimistic scenario. In the case of the ECF, the negative result will the project to not be done for that scenario. For all the rest of the assumptions, the project has a positive NPV so it will be recommended to go on with the project.

5.9.2 IRR

The internal rate of return (IRR) can be used as an indicator of the profitability of an investment project, the higher the IRR, the greater the profitability. For calculation purposes, this geometric average of the expected future returns is not more than the value of the discount or interest rate necessary to make the NPV null in a given time horizon.

The equation that is used to calculate the IRR is the following:

$$VAN = \sum_{t=1}^{n} \frac{V_t}{(1+TIR)^t} - I_0$$

Where:

V_t represents the cash flows in each period

I_0 represents the initial investment

VAN is null

The IRR(TIR) obtained for a time horizon of ten years in the three proposed scenarios is the following

For the ECF:

	Standard	Optimistic	Pessimistic
IRR	9%	19%	3%

Table 31- IRR ECF

For the Free Cash Flow to the Firm:

	Standard	Optimistic	Pessimistic
IRR	13%	20%	7%

Table 32- IRR FCF to the Firm

5.9.2.1 Conclusions IRR

The results of the internal rate of return are similar for the ECF and the FCF to the firm. In the FCF to the firm, the IRR is good enough for every scenario, being really good for the standard and optimistic and good for the pessimistic. For the ECF, the IRR is good for the optimistic and standard but for the pessimistic scenario is low. These results correspond with the ones obtained in the NPV.

5.9.3 Payback

The payback will be when the initial investment will be recovered.

Payback	5 years, 8 months and a half.

Table 33- Payback period

In the standard scenario for the FCF to the firm, the payback period is in the horizontal time of the study of the project.

5.10.3.1 Conclusions Payback Period

The project has been calculated for a horizontal time of 10 years. The investment is really high and recovering the money in 5 years, 8 moths and a half is something that reflects the conclusions of the NPV and the IRR of investing in the project.

Chapter VI

Conclusions

Chapter 6. Conclusions

After analyzing all the chapters of this project, in the conclusions I have to decide whether is a good inversion or not and why.

The tourism in the capital is always constant and that is the reason why hotels in the capital succeed. The business model helped to take the decision in what type of strategy is going to be used and the analysis of the sector helped to use the correct numbers in the calculations even do they are assumptions.

The lack of typical canarian hotels in the capital and the location make me think positive about this project.

The Building that have been chosen is perfect for the value proposition that the business model shows. A typical canarian house has to be located in Vegueta which is the old town of the island and has to have a canarian garden and not all buildings have this type of gardens.

The SWOT analysis has helped to understand the business better and the Ansoff matrix has helped in order to take a decision over the strategy that has been a key point in the price chosen for the Hotel.

The name and logo of the hotel are also another factor that shows the value proposition of the project.

Something that you must consider about the project is that all the calculations have been made yearly, that means that in hotels normally they vary there prices and occupancy each month and for this academic project I have choose to do an analysis of the sector and get a fixed price and an average occupancy for the hotels of the same characteristic.

Even do if we do the assumptions per month the result would not be exactly the same, they will still be assumptions and will be very similar to the ones obtain with the year method doo to the constant tourism and occupancy stability in the Hotel sector in Las Palmas de Gran Canaria.

I think that the strategy chosen in the marketing is appropriate and the economic assumptions are the correct ones for a new project of this characteristics.

Considering the Net Present Value (NPV) and the Internal Rate of Return (IRR) obtain in the different models this are my conclusions:

For the free cash flow to the firm, the project will be viable, and I will recommend inverting on it for the three scenarios. Being a big difference in between the pessimistic and the rest. Even the pessimistic is not a really good scenario, the NPV is positive so I will recommend doing the inversion for all the scenarios. The standard scenario and the optimistic one is scenarios really attractive for the firm.

In the equity cash flow calculations, the NPV have been positive for the standard and optimistic scenario. For the pessimistic scenario the NPV will be negative so my recommendation will be not to do the inversion.

Considering that the standard and the optimistic are attractive, I will be positive with the results and recommend doing the inversion on the project.

In order to make a decision, I will consider the DCF. The free cash flow to the firm is how the firm values their company and is what I consider as positive or not in the project. In the three scenarios the NPV was positive as I said before so my recommendation due to the NPV and the IRR will be to go on with the project.

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Annexed I

Optimistic and Pessimistic Calculations

Annexed I – Optimistic & Pessimistic Calculations

Optimistic	Number of rooms	40	Occupancy 1	50%	Price per room 1	80 €
			Occupancy 2	65%	Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
Bar		24.333,33 €	31.633,33 €	32.266,00 €	32.911,32 €	33.569,55 €	34.240,94 €	34.925,76 €	35.624,27 €	36.336,76 €	37.063,49 €
Gustes		584.000,00 €	1.138.800,00 €	1.161.576,00 €	1.184.807,52 €	1.208.503,67 €	1.232.673,74 €	1.257.327,22 €	1.282.473,76 €	1.308.123,24 €	1.334.285,70 €
Chill-out		19.466,67 €	25.306,67 €	25.812,80 €	26.329,06 €	26.855,64 €	27.392,75 €	27.940,60 €	28.499,42 €	29.069,41 €	29.650,79 €
Total		627.800,00 €	1.195.740,00 €	1.219.654,80 €	1.244.047,90 €	1.268.928,85 €	1.294.307,43 €	1.320.193,58 €	1.346.597,45 €	1.373.529,40 €	1.400.999,99 €

Table 34- Optimistic Revenue

Pessimistic	Number of rooms	40	Occupancy 1	30%	Price per room 1	80 €
			Occupancy 2	40%	Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
Bar		14.600,00 €	19.466,67 €	19.856,00 €	20.253,12 €	20.658,18 €	21.071,35 €	21.492,77 €	21.922,63 €	22.361,08 €	22.808,30 €
Gustes		350.400,00 €	700.800,00 €	714.816,00 €	729.112,32 €	743.694,57 €	758.568,46 €	773.739,83 €	789.214,62 €	804.998,92 €	821.098,89 €
Chill-out		11.680,00 €	15.573,33 €	15.884,80 €	16.202,50 €	16.526,55 €	16.857,08 €	17.194,22 €	17.538,10 €	17.888,86 €	18.246,64 €
Total		376.680,00 €	735.840,00 €	750.556,80 €	765.567,94 €	780.879,29 €	796.496,88 €	812.426,82 €	828.675,35 €	845.248,86 €	862.153,84 €

Table 35- Pessimistic Revenue

Optimistic				Number of rooms	40		Occupancy 1	50%		Price per room 1	80 €
							Occupancy 2	65%		Price per room 2	120 €
Year	0	1	2	3	4	5	6	7	8	9	10
Workers		190.617,00 €	193.476,26 €	196.378,40 €	199.324,07 €	202.313,94 €	205.348,64 €	208.428,87 €	211.555,31 €	214.728,64 €	217.949,57 €
Bar		12.166,67 €	15.816,67 €	16.133,00 €	16.455,66 €	16.784,77 €	17.120,47 €	17.462,88 €	17.812,14 €	18.168,38 €	18.531,75 €
Chill-out		9.733,33 €	12.653,33 €	12.906,40 €	13.164,53 €	13.427,82 €	13.696,37 €	13.970,30 €	14.249,71 €	14.534,70 €	14.825,40 €
Suppliers		18.600,00 €	18.879,00 €	19.162,19 €	19.449,62 €	19.741,36 €	20.037,48 €	20.338,04 €	20.643,12 €	20.952,76 €	21.267,05 €
Total		231.117,00 €	240.825,26 €	244.579,98 €	248.393,88 €	252.267,89 €	256.202,97 €	260.200,10 €	264.260,27 €	268.384,48 €	272.573,76 €

Table 36- Optimistic Cost

PESSIMISTIC			Number of rooms	40		Occupancy 1	30%		Price per room 1	80 €
						Occupancy 2	40%		Price per room 2	120 €
Year	0	1	2	3	4	5	6	7	8	9	10
Workers		190.617,00 €	193.476,26 €	196.378,40 €	199.324,07 €	202.313,94 €	205.348,64 €	208.428,87 €	211.555,31 €	214.728,64 €	217.949,57 €
Bar		7.300,00 €	9.733,33 €	9.928,00 €	10.126,56 €	10.329,09 €	10.535,67 €	10.746,39 €	10.961,31 €	11.180,54 €	11.404,15 €
Chill-out		5.840,00 €	7.786,67 €	7.942,40 €	8.101,25 €	8.263,27 €	8.428,54 €	8.597,11 €	8.769,05 €	8.944,43 €	9.123,32 €
Supplier		18.600,00 €	18.879,00 €	19.162,19 €	19.449,62 €	19.741,36 €	20.037,48 €	20.338,04 €	20.643,12 €	20.952,76 €	21.267,05 €
Total		222.357,00 €	229.875,26 €	233.410,98 €	237.001,50 €	240.647,66 €	244.350,34 €	248.110,42 €	251.928,79 €	255.806,37 €	259.744,09 €

Table 37- Pessimistic Cost

Optimistic			Number of rooms	40		Occupancy 1	50%		Price per room 1	80 €
						Occupancy 2	65%		Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
REVENUES		627.800,00 €	1.195.740,00 €	1.219.654,80 €	1.244.047,90 €	1.268.928,85 €	1.294.307,43 €	1.320.193,58 €	1.346.597,45 €	1.373.529,40 €	1.400.999,99 €
COGS		-21.900,00 €	-28.470,00 €	-29.039,40 €	-29.620,19 €	-30.212,59 €	-30.816,84 €	-31.433,18 €	-32.061,84 €	-32.703,08 €	-33.357,14 €
GROSS Margin		605.900,00 €	1.167.270,00 €	1.190.615,40 €	1.214.427,71 €	1.238.716,26 €	1.263.490,59 €	1.288.760,40 €	1.314.535,61 €	1.340.826,32 €	1.367.642,85 €
Operating expenses		-209.217,00 €	-212.355,26 €	-215.540,58 €	-218.773,69 €	-222.055,30 €	-225.386,13 €	-228.766,92 €	-232.198,42 €	-235.681,40 €	-239.216,62 €
EBITDA		396.683,00 €	954.914,75 €	975.074,82 €	995.654,02 €	1.016.660,96 €	1.038.104,46 €	1.059.993,48 €	1.082.337,18 €	1.105.144,92 €	1.128.426,23 €
depreciation		-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €
Ebit		497.093,00 €	1.613.556,49 €	1.653.876,63 €	1.695.035,03 €	1.737.048,93 €	1.779.935,92 €	1.823.713,96 €	1.868.401,37 €	1.914.016,84 €	1.960.579,45 €
FINANCIAL interest		-50.893,00 €	-49.665,00 €	-48.408,00 €	-47.129,00 €	-45.812,00 €	-44.470,00 €	-43.097,00 €	-41.693,00 €	-40.256,00 €	-38.786,00 €
EBT		446.200,00 €	1.563.891,49 €	1.605.468,63 €	1.647.906,03 €	1.691.236,93 €	1.735.465,92 €	1.780.616,96 €	1.826.708,37 €	1.873.760,84 €	1.921.793,45 €
TAXES		-111.550,00 €	-390.972,87 €	-401.367,16 €	-411.976,51 €	-422.809,23 €	-433.866,48 €	-445.154,24 €	-456.677,09 €	-468.440,21 €	-480.448,36 €
NET PROFIT		334.650,00 €	1.172.918,62 €	1.204.101,47 €	1.235.929,52 €	1.268.427,70 €	1.301.599,44 €	1.335.462,72 €	1.370.031,28 €	1.405.320,63 €	1.441.345,09 €

Table 38- Optimistic P&L

Pesimistic			Number of rooms	40		Occupancy 1	30%		Price per room 1	80 €
						Occupancy 2	40%		Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
REVENUES		376.680,00 €	735.840,00 €	750.556,80 €	765.567,94 €	780.879,29 €	796.496,88 €	812.426,82 €	828.675,35 €	845.248,86 €	862.153,84 €
COGS		-13.140,00 €	-17.520,00 €	-17.870,40 €	-18.227,81 €	-18.592,36 €	-18.964,21 €	-19.343,50 €	-19.730,37 €	-20.124,97 €	-20.527,47 €
GROSS Margin		363.540,00 €	718.320,00 €	732.686,40 €	747.340,13 €	762.286,93 €	777.532,67 €	793.083,32 €	808.944,99 €	825.123,89 €	841.626,37 €
Operating expenses		-209.217,00 €	-212.355,26 €	-215.540,58 €	-218.773,69 €	-222.055,30 €	-225.386,13 €	-228.766,92 €	-232.198,42 €	-235.681,40 €	-239.216,62 €
EBITDA		154.323,00 €	505.964,75 €	517.145,82 €	528.566,44 €	540.231,63 €	552.146,54 €	564.316,40 €	576.746,57 €	589.442,49 €	602.409,75 €
depreciation		-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €
Ebit		-141.950,00 €	209.691,75 €	220.872,82 €	232.293,44 €	243.958,63 €	255.873,54 €	268.043,40 €	280.473,57 €	293.169,49 €	306.136,75 €
FINANCIAL Interest		-50.893,00 €	-49.665,00 €	-48.408,00 €	-47.129,00 €	-45.812,00 €	-44.470,00 €	-43.097,00 €	-41.693,00 €	-40.256,00 €	-38.786,00 €
EBT		-192.843,00 €	160.026,75 €	172.464,82 €	185.164,44 €	198.146,63 €	211.403,54 €	224.946,40 €	238.780,57 €	252.913,49 €	267.350,75 €
TAXES		0,00 €	-40.006,69 €	-43.116,20 €	-46.291,11 €	-49.536,66 €	-52.850,89 €	-56.236,60 €	-59.695,14 €	-63.228,37 €	-66.837,69 €
NET PROFIT		-192.843,00 €	120.020,06 €	129.348,61 €	138.873,33 €	148.609,97 €	158.552,66 €	168.709,80 €	179.085,42 €	189.685,12 €	200.513,06 €

Table 39- Pessimistic P&L

OPTIMISTIC	Number of rooms			
		Occupancy 1	50%	Price per room 1	80 €
		Occupancy 2	65%	Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
INVESTMENT	-3.000.000,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
Sales		627.800,00 €	1.195.740,00 €	1.219.654,80 €	1.244.047,90 €	1.268.928,85 €	1.294.307,43 €	1.320.193,58 €	1.346.597,45 €	1.373.529,40 €	1.400.999,99 €
COGS		-13.140,00 €	-17.520,00 €	-17.870,40 €	-18.227,81 €	-18.592,36 €	-18.964,21 €	-19.343,50 €	-19.730,37 €	-20.124,97 €	-20.527,47 €
Gross Margin		614.660,00 €	1.178.220,00 €	1.201.784,40 €	1.225.820,09 €	1.250.336,49 €	1.275.343,22 €	1.300.850,08 €	1.326.867,09 €	1.353.404,43 €	1.380.472,52 €
Operating Expenses		-209.217,00 €	-212.355,26 €	-215.540,58 €	-218.773,69 €	-222.055,30 €	-225.386,13 €	-228.766,92 €	-232.198,42 €	-235.681,40 €	-239.216,62 €
EBITDA		405.443,00 €	965.864,75 €	986.243,82 €	1.007.046,40 €	1.028.281,19 €	1.049.957,09 €	1.072.083,16 €	1.094.668,66 €	1.117.723,03 €	1.141.255,90 €
DEPRECIATION		-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €
EBIT		109.170,00 €	669.591,75 €	689.970,82 €	710.773,40 €	732.008,19 €	753.684,09 €	775.810,16 €	798.395,66 €	821.450,03 €	844.982,90 €
FINANCAL COST		-50.893,00 €	-49.665,00 €	-48.408,00 €	-47.129,00 €	-45.812,00 €	-44.470,00 €	-43.097,00 €	-41.693,00 €	-40.256,00 €	-38.786,00 €
EBT		58.277,00 €	619.926,75 €	641.562,82 €	663.644,40 €	686.196,19 €	709.214,09 €	732.713,16 €	756.702,66 €	781.194,03 €	806.196,90 €
TAXES		-14.569,25 €	-154.981,69 €	-160.390,70 €	-165.911,10 €	-171.549,05 €	-177.303,52 €	-183.178,29 €	-189.175,67 €	-195.298,51 €	-201.549,22 €
NET PROFIT		43.707,75 €	464.945,06 €	481.172,11 €	497.733,30 €	514.647,14 €	531.910,57 €	549.534,87 €	567.527,00 €	585.895,52 €	604.647,67 €
DEPRECITATION		296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €
OWC		-48.082,67 €	-43.264,67 €	-4.341,07 €	-4.427,89 €	-4.516,45 €	-4.606,77 €	-4.698,91 €	-4.792,89 €	-4.888,75 €	-4.986,52 €
CAPEX		-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €
Change in debt		-53.987,00 €	-55.215,00 €	-56.472,00 €	-57.751,00 €	-59.068,00 €	-60.410,00 €	-61.783,00 €	-63.187,00 €	-64.624,00 €	-66.094,00 €
ECF	-3.000.000,00 €	290.904,75 €	716.960,06 €	772.110,71 €	788.585,08 €	805.410,36 €	822.583,46 €	840.115,63 €	858.013,78 €	876.286,44 €	894.940,82 €

Table 40- Optimistic ECF

PESIMISTIC	Number of rooms	Occupancy 1	30%	Price per room 1	80 €
		Occupancy 2	40%	Price per room 2	120 €

Year	0	1	2	3	4	5	6	7	8	9	10
INVESTMENT	-3.000.000,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
Sales		376.680,00 €	735.840,00 €	750.556,80 €	765.567,94 €	780.879,29 €	796.496,88 €	812.426,82 €	828.675,35 €	845.248,86 €	862.153,84 €
COGS		-13.140,00 €	-17.520,00 €	-17.870,40 €	-18.227,81 €	-18.592,36 €	-18.964,21 €	-19.343,50 €	-19.730,37 €	-20.124,97 €	-20.527,47 €
Gross Margin		363.540,00 €	718.320,00 €	732.686,40 €	747.340,13 €	762.286,93 €	777.532,67 €	793.083,32 €	808.944,99 €	825.123,89 €	841.626,37 €
Operating Expenses		-209.217,00 €	-212.355,26 €	-215.540,58 €	-218.773,69 €	-222.055,30 €	-225.386,13 €	-228.766,92 €	-232.198,42 €	-235.681,40 €	-239.216,62 €
EBITDA		154.323,00 €	505.964,75 €	517.145,82 €	528.566,44 €	540.231,63 €	552.146,54 €	564.316,40 €	576.746,57 €	589.442,49 €	602.409,75 €
DEPRECIATION		-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €	-296.273,00 €
EBIT		-141.950,00 €	209.691,75 €	220.872,82 €	232.293,44 €	243.958,63 €	255.873,54 €	268.043,40 €	280.473,57 €	293.169,49 €	306.136,75 €
FINANCAL COST		-50.893,00 €	-49.665,00 €	-48.408,00 €	-47.129,00 €	-45.812,00 €	-44.470,00 €	-43.097,00 €	-41.693,00 €	-40.256,00 €	-38.786,00 €
EBT		-192.843,00 €	160.026,75 €	172.464,82 €	185.164,44 €	198.146,63 €	211.403,54 €	224.946,40 €	238.780,57 €	252.913,49 €	267.350,75 €
TAXES		0,00 €	-40.006,69 €	-43.116,20 €	-46.291,11 €	-49.536,66 €	-52.850,89 €	-56.236,60 €	-59.695,14 €	-63.228,37 €	-66.837,69 €
NET PROFIT		-192.843,00 €	120.020,06 €	129.348,61 €	138.873,33 €	148.609,97 €	158.552,66 €	168.709,80 €	179.085,42 €	189.685,12 €	200.513,06 €
DEPRECITATION		296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €	296.273,00 €
OWC		-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €	-993,33 €
CAPEX		-53.987,00 €	-55.215,00 €	-56.472,00 €	-57.751,00 €	-59.068,00 €	-60.410,00 €	-61.783,00 €	-63.187,00 €	-64.624,00 €	-66.094,00 €
Change in debt		290.904,75 €	716.960,06 €	772.110,71 €	788.585,08 €	805.410,36 €	822.583,46 €	840.115,63 €	858.013,78 €	876.286,44 €	894.940,82 €
ECF	-3.000.000,00 €	48.449,67 €	360.084,73 €	368.156,28 €	376.401,99 €	384.821,64 €	393.422,32 €	402.206,47 €	411.178,09 €	420.340,78 €	429.698,73 €

Table 41- Pessimistic ECF

Optimistic											
Year	0	1	2	3	4	5	6	7	8	9	10
INVESTMENT	- 3.000.000 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Sales		627.800 €	1.195.740 €	1.219.655 €	1.244.048 €	1.268.929 €	1.294.307 €	1.320.194 €	1.346.597 €	1.373.529 €	1.401.000 €
COGS		- 21.900 €	- 28.470 €	- 29.039 €	- 29.620 €	- 30.213 €	- 30.817 €	- 31.433 €	- 32.062 €	- 32.703 €	- 33.357 €
Gross margin		605.900 €	1.167.270 €	1.190.615 €	1.214.428 €	1.238.716 €	1.263.491 €	1.288.760 €	1.314.536 €	1.340.826 €	1.367.643 €
Operating expenses		- 209.217 €	- 212.355 €	- 215.541 €	- 218.774 €	- 222.055 €	- 225.386 €	- 228.767 €	- 232.198 €	- 235.681 €	- 239.217 €
Ebitda		396.683 €	954.915 €	975.075 €	995.654 €	1.016.661 €	1.038.104 €	1.059.993 €	1.082.337 €	1.105.145 €	1.128.426 €
DEPRECIATION		- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €
EBIT		100.410 €	658.642 €	678.802 €	699.381 €	720.388 €	741.831 €	763.720 €	786.064 €	808.872 €	832.153 €
intereses		- 50.893 €	- 49.665 €	- 48.408 €	- 47.129 €	- 45.812 €	- 44.470 €	- 43.097 €	- 41.693 €	- 40.256 €	- 38.786 €
EBT		49.517 €	608.977 €	630.394 €	652.252 €	674.576 €	697.361 €	720.623 €	744.371 €	768.616 €	793.367 €
TAXES		- 12.379 €	- 152.244 €	- 157.598 €	- 163.063 €	- 168.644 €	- 174.340 €	- 180.156 €	- 186.093 €	- 192.154 €	- 198.342 €
NOPAT		37.138 €	456.733 €	472.795 €	489.189 €	505.932 €	523.021 €	540.468 €	558.278 €	576.462 €	595.025 €
DEPRECITATION		296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €
Interese*(1-T)		38.170 €	37.249 €	36.306 €	35.347 €	34.359 €	33.353 €	32.323 €	31.270 €	30.192 €	29.090 €
CAPEX		- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €
OWC		- 48.083 €	- 43.265 €	- 4.341 €	- 4.428 €	- 4.516 €	- 4.607 €	- 4.699 €	- 4.793 €	- 4.889 €	- 4.987 €
FCF	- 3.000.000,00 €	322.504,50 €	745.996,31 €	800.039,96 €	815.387,54 €	831.054,19 €	847.046,49 €	863.371,12 €	880.034,92 €	897.044,86 €	914.408,06 €

Table 42- Pessimistic FCF to the firm

Pesimistic											
Year	0	1	2	3	4	5	6	7	8	9	10
INVESTMENT	- 3.000.000 €	- €	- €	- €	- €	- €	- €	- €	- €	- €	- €
Sales		376.680 €	735.840 €	750.557 €	765.568 €	780.879 €	796.497 €	812.427 €	828.675 €	845.249 €	862.154 €
COGS		- 13.140 €	- 17.520 €	- 17.870 €	- 18.228 €	- 18.592 €	- 18.964 €	- 19.343 €	- 19.730 €	- 20.125 €	- 20.527 €
Gross margin		363.540 €	718.320 €	732.686 €	747.340 €	762.287 €	777.533 €	793.083 €	808.945 €	825.124 €	841.626 €
Operating expenses		- 209.217 €	- 212.355 €	- 215.541 €	- 218.774 €	- 222.055 €	- 225.386 €	- 228.767 €	- 232.198 €	- 235.681 €	- 239.217 €
Ebitda		154.323 €	505.965 €	517.146 €	528.566 €	540.232 €	552.147 €	564.316 €	576.747 €	589.442 €	602.410 €
DEPREcIATION		- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €	- 296.273 €
EBIT		- 141.950 €	209.692 €	220.873 €	232.293 €	243.959 €	255.874 €	268.043 €	280.474 €	293.169 €	306.137 €
intereses		- 50.893 €	- 49.665 €	- 48.408 €	- 47.129 €	- 45.812 €	- 44.470 €	- 43.097 €	- 41.693 €	- 40.256 €	- 38.786 €
EBT		- 192.843 €	160.027 €	172.465 €	185.164 €	198.147 €	211.404 €	224.946 €	238.781 €	252.913 €	267.351 €
TAXES		- €	- 40.007 €	- 43.116 €	- 46.291 €	- 49.537 €	- 52.851 €	- 56.237 €	- 59.695 €	- 63.228 €	- 66.838 €
NOPAT		- 192.843 €	120.020 €	129.349 €	138.873 €	148.610 €	158.553 €	168.710 €	179.085 €	189.685 €	200.513 €
DEPREcITATION		296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €	296.273 €
Interese*(1-T)		38.170 €	37.249 €	36.306 €	35.347 €	34.359 €	33.353 €	32.323 €	31.270 €	30.192 €	29.090 €
CAPEX		- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €	- 993 €
OWC		- 48.083 €	- 43.265 €	- 4.341 €	- 4.428 €	- 4.516 €	- 4.607 €	- 4.699 €	- 4.793 €	- 4.889 €	- 4.987 €
FCF	- 3.000.000,00 €	92.523,75 €	409.283,81 €	456.593,21 €	465.071,86 €	473.732,20 €	482.578,05 €	491.613,31 €	500.841,95 €	510.268,04 €	519.895,71 €

Table 43- Pessimistic FCF to the firm