



On the front desk

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Contents

Introduction	2
Leading Global Hotel Group	4
Multinational hotel chain	5
Asian hotel-owning company	6
Hungarian hotel group	7
Hyatt Group	8
Luxury hotel chain in Barbados	9
Leading theme park in Dubai	10
InterContinental Hotels Group (IHG)	11
Azerbaijani hotel-owning group	12
Spanish real estate Investment trust (SOCIMI)	13
Global hotel group	14
Luxury Asian hotel group	15
Spanish hotel group	16
Chinese operations of a global theme park group	17



Introduction

Many will agree that it has been an exciting year, in which we have seen some historical mergers which will continue to have impacts on the leisure market. Taking a positive view, volatility brings opportunity, and at KPMG member firms have seen a wide range of diverse, transaction-related engagements. This reflects a global hospitality market that is consolidating, maturing and seeing a number of new market entrants. Globally, KPMG member firms are investing in companies and expertise in order to meet the new demands from clients and the market in general. In last years' publication, I briefly described the impact of data and analytics, as well as changing demographics on the growth of the hospitality markets. New ways of communicating, global urbanization (66 percent¹ of the world's population will live in urban areas by 2050) and the rise of a travel-savvy, global middle class, all work together to create massive opportunities in the market.

Regions are showing varying maturities around similar trends. For example, some travelers are looking for 'authentic' experiences, whilst others seek something more cultural or lifestyle/business focused. Planned travel, whether for business or leisure, is becoming shorter in length but at the same time more frequent. China's Five-Year Plan identifies tourism as a core growth engine, resulting in the growth of China's hotel industry to a US\$59 billion² business over the last couple of years. The general expectation is that this growth will continue for years to come and will affect the whole region.

All in all, there are some enormous opportunities in the market and products that are becoming increasingly more sophisticated, innovative, continuing to delight travellers! It is with great pleasure that I present you with some examples of KPMG member firms' case studies.



Mark Kemper
Global Head of Leisure and Hospitality

¹ UN DESA: 2014 revision of the World Urbanization Prospects
² Source: <http://www.ibisworld.com/industry/china/hotels.html>

US outlook

The fundamentals of the US hospitality and leisure market continue to be positive, but are growing at a slower pace than prior years. With occupancy growth contracting, congruent with slower US economic growth, overall revenue per available room (RevPAR) growth has increasingly been propped up by average daily rates (ADR). The reality of these performance metrics and the continued diversification of guest expectations across the travel, leisure and hospitality segment is perpetuating the challenges and opportunities faced by owners and managers.

As Baby Boomers, Millennials, and foreign travelers continue to devote a bigger part of their discretionary spend on experiences instead of material goods, many US hoteliers are responding with strategies that align to the evolving tastes of their guests. These strategies are tempered by the mandate to choose investments wisely in order to maintain efficient cost structures, both at the asset level and via consolidation activity, whilst still meeting investment return expectations – despite continued interest in assets from foreign investors.

Ultimately, success will be based on a hotelier's ability to align its team culture to fulfill brand promises and leverage an asset's unique strengths to create the best experiences for guests. This is highlighted by technology platforms that magnify the perception of ideal experiences, from the historically heightened expectations for amenities in the luxury segment to the local feel of the independent playing to the guest looking to share a unique experience with others.



Michael Smith
US Co-Head of Leisure and Hospitality

UK outlook

As we look forward to 2017 the word on everyone's lips, particularly in the UK but also across Europe, is Brexit and its potential impacts on the hospitality and leisure market across the continent.

The short answer is there are far too many variables and uncertainties, none of which are good for business or consumer confidence (although so far we have seen little impact of the vote to leave in key economic indicators). What we have seen is a large fall in the value of the pound sterling, which has had immediate consequences in making the UK more attractive to overseas investors and travellers but at the same time making travel abroad for UK citizens more expensive.

There will of course be both winners and losers and it will be interesting to see who these are and how share prices move over the coming months. Airlines have been negatively impacted but large hospitality operators earning in US dollars have seen their share prices rise in the UK. The Prime Minister has indicated when the Government intends to trigger Article 50, with elections looming in the Netherlands, France and Germany it seems there will be no end to the uncertainty. Businesses which have strong balance sheets, efficient operating models and that use technology to enhance and deliver a great customer experience will be in a strong position to deliver in these uncertain times.



Will Hawkley
UK Head of Leisure and Hospitality

Leading Global Hotel Group



IT Integration assistance

Context

The client, a leading global hotel group, was seeking assistance with a major acquisition to expand its global footprint and design the future organization structure for its IT Delivery department.

Due to the large size of both organizations, the client sought out advisors to not only support the strategic design of their target operating model but also assist with day-to-day coordination of integration and transformation efforts.

KPMG'S role

The project includes several workstreams for the client's IT Delivery department.

First, the team developed business cases for 28 proposed projects that were being evaluated for completion in conjunction with the acquisition of another international hotel brand.

Second, the team helped with the design of the future organization structure in 7 reports presented directly to the Senior Vice President. In addition, the team developed a costing model that encompassed insource and outsource resource spend.

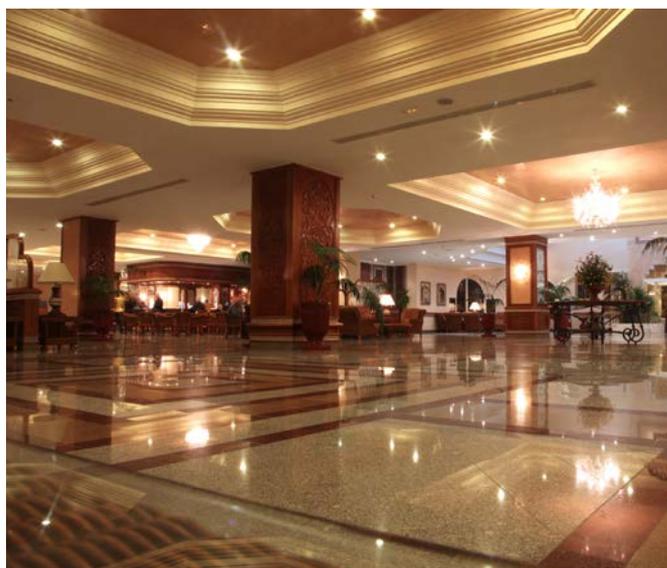
Third, the team put together a Hypercare program framework, to be run out of the client's Service Availability team. The team also plans to develop Promote to Production and Release Management services and processes.

Fourth, the team began documenting roles and responsibilities for the entire future-state organization with RACI (Responsible, Accountable, Consulted or Informed) charts.

Finally, the team provided assistance with the consolidation of outsourcing provider contracts, including risk mitigation plans, communication plans, and transition services.

Outcome

Whilst the engagement is still ongoing, the transformation has already resulted in considerable labor cost savings, while shifting headcount and engineering roles back in-house and re-evaluating service provider relationships.



Multinational hotel chain

Shared services strategy design and implementation



Context and KPMG's role

KPMG's Shared Services & Outsourcing team supported the client by defining a new target operating model (TOM).

The new TOM was used to restructure the shared services centers on a global rather than regional basis, with process owners who would focus on driving consistency and efficiency in each key service line.

A new account management team would help ensure customers' needs were being met and new opportunities to improve the service offering were being realized.

Outcome

The new operating model meant that there was additional cost saving opportunities from further offshoring, which a KPMG member firm helped the client to identify and execute.

KPMG professionals provided the necessary transparency of a global performance management process which established consistency in reporting and provided a clear view as to how the shared services centre was delivering for the business and its customers.

In addition, the KPMG team helped develop a target culture for the Indian global delivery center, industry best practices for the delivery centers, and a methodology for future migration of its processes, as well as a plan to further offshore its finance processes.



Asian hotel-owning company



Payroll fraud investigation

Context

A hotel owner was made aware of a payroll fraud in its hotel. The paymaster had misappropriated the hotel's funds, and the hotel owner needed a forensic investigation conducted to understand the extent of the fraud and the circumstances under which it occurred, within a short time frame.

KPMG'S role

KPMG in Singapore was engaged by the client to conduct the forensic investigation.

We used our forensic data analysis methodology, K-Trace, in the investigation as it is designed to analyze financial accounting and operational datasets for indicators of control weakness and potential fraud.

Outcome

KPMG performed in-depth testing of the data through the use of K-Trace, allowing the client to understand the full extent of the fraud in a short time frame.

KPMG established the modus operandi of the fraudster and quantified the total amount that was misappropriated over the relevant period. KPMG's review also highlighted areas where the hotel owner could further strengthen the internal controls and segregation of duties over payroll processing.



Hungarian hotel group



Hungarian hotels portfolio valuation

Context

The client engaged a KPMG member firm to prepare a valuation over a selected portfolio of 14 hotels. Our valuation covered all 14 properties including land, land improvements and buildings. Our task was to estimate the aggregated Market Value of the designated hotels.

KPMG'S role

Before KPMG professionals made an estimation of the value, we visited and inspected all 14 properties, and considered all available information relating to planning issues, size of the site, technical features and condition as well as the local hotel markets. During the preparation of the valuation report KPMG valuation specialists relied on both primary and secondary information. The primary information included interviews with the management of Hunguest Hotels and key players in the hotel and tourism industry.

KPMG professionals applied the Income Approach in arriving at an estimate of the aggregated Market Value for the designated hotels. Due to the relative lack of data available regarding comparable transactions, we believed that the results of the Income approach provided the most relevant market value of the property.

Our valuation was made in compliance with the Valuation – Professional Standards January 2014 of the Royal Institution of Chartered Surveyors (RICS).

Outcome

The valuation was required for bank financing purposes.



Hyatt Group



Advice on Indian tax and regulations.

Context

KPMG in India assisted with the client's Global restructuring of their onshore and offshore Management contracts. Services included:

- Advising on the use of external commercial borrowings from a regulatory and tax perspective;
- Advising on Indian tax implications in respect of indirect transfer provisions on sale of shares;
- Advising on Indian tax implications of implementation of a new global transfer pricing methodology;
- Advising on the feasibility of setting up a limited liability partnership in India;
- Assisting on the review of service agreements from a tax and regulatory perspective;
- Advisory on the implications of base erosion and profit shifting for the entire group;
- Reviewing their existing agreements and determining potential exposure, if any;

Outcome

The client is currently acting on advice provided by KPMG.



Luxury hotel chain in Barbados



Financial due diligence on hotel acquisition.

Context

A large luxury hotel chain in Barbados, which is currently an audit client of KPMG in Barbados, requested services with respect to the acquisition of another hotel chain. This acquisition involved the purchase of the shares of the locally incorporated entity which owned the freehold premises of this particular hotel.

KPMG'S Role

Using a combined team of transaction advisory and tax professionals, KPMG in Barbados provided due diligence services to the client with regard to the acquisition. KPMG's professionals worked with the client's legal representatives to help ensure that a favourable outcome was achieved. The deal was structured as a purchase of the shares of the locally incorporated entity.

The professional services provided by KPMG in Barbados included:

- Financial due diligence on the target entity's financial position to highlight risks inherent in the transaction and recommendations of things to be considered in negotiating the sale and purchase agreement;
- Accounting advisory services with respect to the closing balance sheet adjustments on acquisition of the target entity;
- Tax advisory services with respect to establishing a tax efficient structure for the transaction; and
- Tax due diligence services over the utilization of existing tax losses of the target entity and highlighting the impact of other closing balance sheet adjustments from a taxation perspective.

Outcome

KPMG in Barbados provided the client with information to assist in successfully completing the aforementioned transaction. The signing of the sale and purchase agreement was confirmed in January 2016 after which KPMG provided further post acquisition advisory services to ensure the completion of the transaction was in accordance with the Sale and Purchase Agreement and International Financial Reporting Standards.



Leading theme park in Dubai



Preparation for public listing

Context

The client was looking for fund raising (debt and equity, including capital market listing). As per the local regulatory requirements for capital market listing, they needed assistance with market assessment, business planning, formal valuation, IPO readiness assessment and corporate governance advisory. As part of the business plan development, there was a need for global and regional benchmarking to estimate the visitor numbers, ticket pricing across categories, revenues from food, beverage and retail offerings.

KPMG'S role

KPMG in the UAE conducted the market and competitive assessment of the entertainment sector in the UAE to identify the key market characteristics, competitive landscape both in the UAE and internationally, and trends and drivers for the future growth of the market segment. Based on the findings from the study and ongoing discussions with management, KPMG professionals prepared a business plan and financial forecast for the business, which included:

- a. expected visitor volumes, visitor spends and other revenue drivers
- b. key cost items; and
- c. capital deployment plan for the business based on the phasing of the project.

A separate team from KPMG's UAE firm also conducted the valuation of the business, on an arm's length basis, based on the market study and financial model/business plan developed. The valuation used the income approach (primary) and market approach (secondary).

Additionally, another team from KPMG conducted the IPO readiness assessment, in parallel to the business planning, to identify key gaps based on the regulatory requirements. Subsequent to this, KPMG advised the client on its corporate governance framework.

KPMG in the UAE also actively participated in discussions and coordination with other advisors and the bankers involved in the fund-raising process to help the client in preparing for the debt as well as equity fund raise. The process was iterative, requiring ongoing discussions and reviews, as well as active involvement from the company and its advisors.

Outcome

Our work was well-received by the company. While the fund raising is currently in progress and is planned to be completed in 2017, KPMG's work has helped to ensure that the client is well prepared for the fund raise process in the coming future. The development of financial forecasts has also provided the company with business/revenue targets and profitability measures that would act as guidance to the business verticals.



InterContinental Hotels Group (IHG)



Debt capital financing

Context

IHG franchises, leases, manages and owns over 5,000 hotels in nearly 100 countries, making it one of the world's largest hotel companies. In August 2016, IHG approached KPMG in the UK for advice on sourcing financing through debt capital market issuance, in order to meet future funding requirements and extend the Group's debt maturity profile.

KPMG'S role

KPMG has advised IHG on their landmark financing transactions since the demerger of the Group from Six Continents plc in 2003, totaling more than US\$10bn of debt financing.

In respect to this transaction, KPMG professionals provided tactical advice to IHG in relation to:

- Transaction strategy (including timing, process and market of issuance);
- Current market conditions and key market interactions;
- Bond structure (quantum, tenor and other terms);
- The selection of lead managers to execute the transaction;
- The negotiation of terms with the lead managers selected; and
- The presentation of information to potential investors.

Outcome

IHG took advantage of a historically low interest rate environment and the Bank of England's announcement that it would include £10 billion of investment grade corporate bonds in its Quantitative Easing programme.

The Group successfully issued a £350 million, 10 year bond in the Sterling market with a coupon of 2.125% (with an orderbook that reached over £950 million).

The 2.125% coupon was considerably lower than the 3.750% coupon achieved in 2015 and is the lowest ever achieved by IHG in the Sterling market.



Azerbaijani hotel-owning group

Financial modelling, feasibility study and valuation for a mixed use complex

Context

The Client is developing a unique mixed-use complex in the capital of Azerbaijan that will become a new architectural landmark for the city. The complex will include a 5-star hotel, branded serviced apartments, an office tower, a residential tower, a shopping mall and an underground car park.

The construction was primarily financed through equity, with the Client also intending to attract debt finance. As a first step, an independent valuation was required to define the fair value of the project.

Secondly, the Client would need a flexible model and a feasibility study to optimize the project's financial structure and output.

KPMG'S role

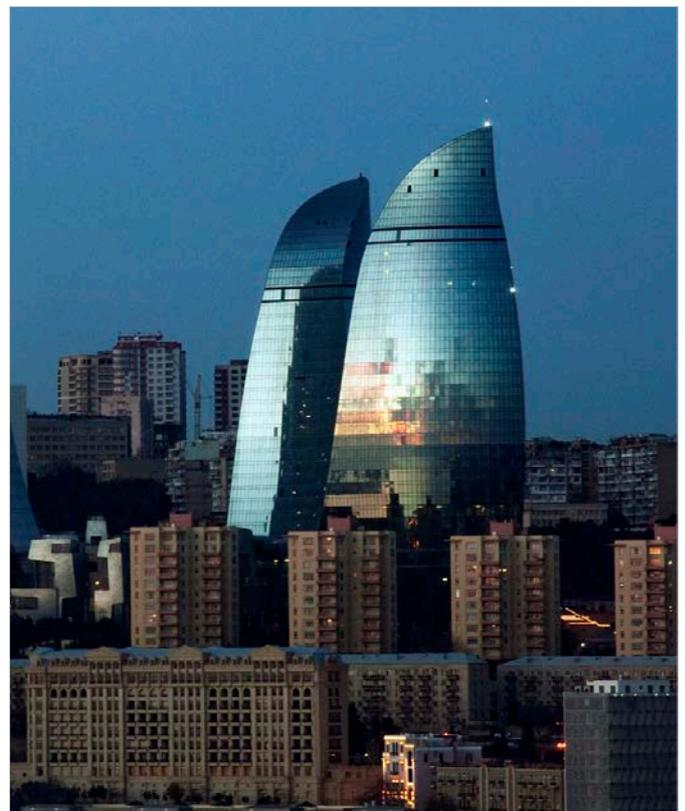
A cross-border team of KPMG specialists from the Russian and Azerbaijani member firms was engaged to perform the services, applying industry best practices and valuation approaches as well as financial engineering experience. Services provided by the team included:

- performing a market and financial feasibility study of the project to create the clear view of the project viability and future outcome;
- developing a flexible financial model which could be used to assess the major KPIs for the owner at different stages of the project and under different scenarios; and
- providing recommendations of changes to the hotel concept in order to make this component of the project more feasible.

Outcome

At this stage the project is undergoing hotel concept adjustments based on our recommendations. Results from the valuation and feasibility study assisted the Client in effective management decision making.

The detailed and flexible financial model provides a clear understanding of the potential risks arising during the construction and operation phases, as well as an assessment of their impacts on cash flows and debt covenants.



Spanish real estate Investment trust (SOCIMI)



Tax and financial advisory services in the acquisition of new projects and opportunities

Context

The client is a listed real estate investment trust which has a mandate to invest in hotels, primarily in Spain, but which has also opened up investment to additional areas such as Mexico.

The client sought experienced advisors to analyze the different opportunities identified in its pipeline and properly assess the Targets performance and Key Value Drivers, including:

- Identifying the recurrent level of earnings for valuation purposes, and cash flows for modelling purposes;
- Identifying the value of the net financial debt, including debt-like items;
- Consideration of other topics that could impact the future ability of the Targets to generate cash flow.

The client also sought advice on the accounting mechanism to be included in the SPA and the completion mechanism.

KPMG'S role

KPMG member firms provided an international team comprising experienced Spanish and Mexican professionals with extensive knowledge of the business and sector, who worked on-site to provide an efficient diligence process.

As part of the fieldwork, the team sat regularly with the client at the target offices in Mexico to discuss any findings and outcomes of discussions with the target.

Outcome

The client valued:

- Rapid responses to its request;
- Coordination of the different streams involved in the project;
- Focused analysis based on extensive experience of our professionals;
- Proactive approach;
- Identifying further upsides and opportunities within the transactions.



Global hotel group



Internal audit outsourcing in Greater China

Context

With the rapid expansion of many hotel brands in Greater China, the client's Global Internal Audit Function is actively exploring cost efficient and value-adding ways to utilise external experts in providing professional internal audit services (property and corporate audits).

KPMG'S role

KPMG in China provided a proposal with a broad-ranging response to the client's needs:

- An experienced and consistent team to serve the client
- A strong link to KPMG in the UK for UK-related business needs
- Subject matter experts who were able to provide value-adding advice

Outcome

- KPMG in China has performed property audits for a number of hotel properties belonging to the group to date. For each property audit, an internal debriefing call is held to share the issues identified and consider next steps.
- KPMG in China is currently undertaking the corporate audit and has already identified several potential issues.



Luxury Asian hotel group



Establishing a framework for sustainability development

Context

The client, an owner and operator of leading hotels situated in various cities around the world under a well-renowned luxury brand, committed to sustainable development and transparency to its stakeholders. Global co-ordination made this a challenging endeavour for both the client and the KPMG engagement team.

Additionally, the absence of sustainability assurance requirements and limited samples of sustainability and assurance engagement in the client's market made this an even tougher exercise.

The client needed to establish a framework for reporting sustainability development back to its stakeholders. Consistent with its brand commitment to quality, the client decided to prepare the report in compliance with international standard (Global Reporting Initiative – G4 Sustainability Reporting Guidelines).

KPMG'S role

Whilst leveraging member firms' knowledge of the hospitality industry, the engagement team also brought sustainability expertise from KPMG's Australian member firm to the client.

To match the high quality and efficiency expected by the client, KPMG brought together assurance and financial statements audit expertise in order to conduct the engagement, this helped to increase the level of assurance given and hence improve the credibility of the sustainability report given to stakeholders.

Outcome

- KPMG was able to bring together sustainability expertise and national knowledge of sustainability and assurance development in the market in a way that really benefited the client.



Spanish hotel group



Assurance services on asset valuation

Context

An international hotel-owning group based in Spain wanted to reduce the level of hotels under the ownership whilst still maintaining its management of those properties under a long-term lease contract.

Once they found the potential investor, they began the process of valuing the selected hotels. As part of this process, the potential investor wanted some comfort around the figures being used as the basis for establishing the value of the hotels and the lease rental payments.

KPMG'S role

KPMG in Spain was also the auditor of the hotel-owning group and therefore had an in-depth knowledge of the hotels involved in the transaction. We were engaged by the potential investor to review the critical variables such as revenue, gross operating profit, EBITDA and EBT.

As an independent firm KPMG's role is to ensure that the procedures performed are clear and sufficient to provide assurance over the values in the transaction.

Outcome

The assets were ultimately sold to the potential investor. KPMG's expertise in the industry and the technical ability to perform the procedures requires to provide comfort to the entities involved in the transaction were important in ensuring its success.



Chinese operations of a global theme park group



Achieving regulatory compliance through existing ERP systems

Context

The client required a solution to achieve compliance with the People's Republic of China ('PRC') statutory requirements, without introducing additional and expensive customizations to the existing ERP systems.

KPMG response

KPMG's solution included two modules, a Financial GL Interface Module and a VAT Interface Module.

An explanation of the capability of each module is shown below

Financial GL Interface Module

- Data and Rules are specified to generate financial statements as required for local regulatory reporting automatically
- System is registered with the local Finance Authorities to achieve system compliance
- Some statistic reports are developed and can be generated automatically
- Reporting processes are configured to achieve standardization

VAT Interface Module

- Mapping schemes are developed to collect customer information and transaction information that is necessary for invoice issuing
- Data retrieving from various operation systems are automatic and standard
- Data processed (split/combine etc.) to be ready for invoicing
- Invoice information can be kept and tracked
- Reconciliation reports are generated for tax filling purposes

Outcome

- The client was compliant with local statutory reporting and computerized accounting system regulations;
- There was an improvement in the automation of local statistics reporting;
- Reporting processes were standardized across all entities; and
- A VAT interface now exists between the client's internal systems and local statutory tax machines that can generate VAT invoices automatically





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