

Investment Appraisal For Prestigious Hotel Group

Basis of Preparation

This appraisal has been prepared in order to provide Prestigious Hotel Group with the potential financial implications and investment returns arising from the proposed solution.

It is based upon a number of stages that together provide an assessment of the investment returns likely to be delivered as a result of project acceptance. It compares specific, identifiable financial returns that arise against the cost of this solution.

This assessment is based upon information and explanation from Prestigious Hotel Group and is indicative only. It is therefore not a part of the contractual offer from Major Telecoms Company.

Background to Investment Appraisal

Prestigious Hotel Group are highly focused on quality. This analysis is in line with their corporate strategy. All pertinent figures (eg customer retention, total number of customers and margin) have been taken from the Group's 2003 annual report.

The sales proposal for this solution is submitted separately – and should be cross-referred to this appraisal.

In order to complete the investment appraisal Prestigious Hotel Group has requested the use of the following appraisal methods:

- Net Present Value

A financial measure of whether a proposal delivers a “profit” or a “loss” using an annual cost of money applied to the timing of spend and savings. It includes the initial cost of the equipment / services, the monthly cost of maintenance, compared to the financial benefits accruing. The result is the change in shareholder value to be anticipated from project acceptance.

- Internal Rate of Return

The return rate per annum to undefined taking into account: initial cost of the equipment / services, monthly cost of maintenance, and comparing these to the timing of benefits identified as a result of implementing the project. The “percentage” answer is compared to the minimum requirement specified by undefined for approval.

- Payback

This is a comparison of the initial outlay of monies, to buy equipment or services, against the time taken for the savings to cover the initial outlay. This

derives an answer which is a time measure, and is usually quoted in months / years.

- Discounted Cash Flow – to NPV and IRR

A detailed statement of all the cash flows and timings that underpin the results provided for Internal Rate Of Return and Net Present Value analysis.

Cash Cost of Solution		
Cost Type	Cost	Month
Consultancy, project management	700,000	0
Cash cost of solution	700,000	

Monthly Costs		
Cost Type	Cost	Months
Network equipment plus network charges spread over 5 years	175,000	1-60
Average monthly cost	175,000	

The monthly cost figure is based on a comparison with a similar contract for another hotel chain.

Benefits Evaluation

Selection of the savings / benefits modules arising supporting this appraisal :-

Improve Revenue per Customer	
Current number of customers	7,668
Revenue per customer per month	2,500
Monthly revenue (\$)	19,170,000
Percentage increase in revenue post solution (%)	2.5
Gross margin (%)	30
Additional monthly margin generated (\$)	143,775
Impact Life (months)	12-60

Based on figures from the annual report - 65% occupancy i.e. 20 days per month, revenue per \$125/customer/day. Equivalent to \$2,500 per month. Start month set to 12 based on roll out of datacentres and new services to hotels.

Increase Number of Customers	
Revenue per customer per month	2,500
New customers per month post solution	2.5
Gross margin (%)	30
Margin Generated Year 1	1,875
Margin Generated Year 2	168,750
Margin Generated Year 3	438,750
Margin Generated Year 4	708,750
Equivalent monthly margin generated (\$)	35,625
Impact Life (months)	12-48

Centralising the applications of the Group's separate hotel transforms them into a global hotel with greater opportunities for upselling and cross-selling. A very conservative view was taken based on the diverse geographical location of the hotels with the effect on the increased number of customers being realised after 12months.

Improve Customer Retention	
Annual revenue	240,000,000
Current retention rate (%)	45
Target retention rate (%)	46
Gross margin (%)	30
Increase in retention post solution (%)	1
Equivalent monthly margin generated (\$)	126,098
Impact Life (months)	12-60

The retention improvement will begin to be realised after 12 months.

One time benefits		
Benefit Type	Benefit	Month
Consolidation assessment	50,000	0
Total one time benefits (\$)	50,000	

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Total Benefits Summary

A summary of the individual Evaluators :

Benefits Summary	
Improve Revenue per Customer	143,775
Increase Number of Customers	35,625
Improve Customer Retention	126,098
Peak monthly benefits	305,498
One time benefits	50,000

Return On Investment Appraisal Elements

NPV Calculation	
Period (months)	60
Cash costs of solution	700,000
Total one time benefits	50,000
Peak monthly benefits	305,498
Average monthly costs	175,000
Discount (interest) rate %	10
NPV (\$)	1,723,489

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Discounted Cashflow Analysis - NPV

Month 0					
	Year 1	Year 2	Year 3	Year 4	Year 5
Month 1	-173,616	-15,798	53,362	110,527	108,987
Month 2	-172,242	-9,535	58,561	114,799	111,579
Month 3	-170,879	-3,365	63,678	119,000	114,125
Month 4	-169,528	2,710	68,713	123,132	116,626
Month 5	-168,186	8,693	73,668	127,193	119,083
Month 6	-166,856	14,585	78,544	131,185	121,498
Month 7	-165,536	20,388	83,341	135,109	123,869
Month 8	-164,226	26,100	88,060	138,965	126,198
Month 9	-162,927	31,725	92,703	142,756	128,484
Month 10	-161,638	37,262	97,271	146,480	130,730
Month 11	-160,360	42,714	101,763	150,140	132,935
Month 12	-22,157	48,080	106,181	153,735	135,099
				Total	1,723,489

IRR Calculation

Period (months)	60
Cash costs of solution	700,000
Total one time benefits	50,000
Peak monthly benefits	305,498
Average monthly costs	175,000
IRR %	29.6

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Discounted Cashflow Analysis - IRR

Month 0	-650,000				
	Year 1	Year 2	Year 3	Year 4	Year 5
Month 1	-171,257	-13,224	37,907	66,630	55,756
Month 2	-167,594	-7,873	41,036	68,266	56,307
Month 3	-164,009	-2,741	44,014	69,803	56,809
Month 4	-160,501	2,177	46,850	71,245	57,265
Month 5	-157,068	6,890	49,546	72,595	57,678
Month 6	-153,709	11,402	52,107	73,856	58,048
Month 7	-150,421	15,722	54,539	75,032	58,377
Month 8	-147,204	19,854	56,844	76,125	58,666
Month 9	-144,055	23,804	59,028	77,139	58,918
Month 10	-140,974	27,579	61,095	78,076	59,133
Month 11	-137,959	31,185	63,048	78,940	59,313
Month 12	-18,803	34,625	64,892	79,732	59,460
				Total	Negl.

Payback Calculation

Cash costs of solution	700,000
Total one time benefits	50,000
Peak monthly benefits	305,498
Average monthly costs	175,000
Payback (months)	42.75

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Summary of Project Returns

Cash Cost of Solution (\$)	700,000
Average Monthly Costs (\$)	175,000
Period (months)	60
Peak monthly benefits (\$)	305,498
One Time Benefits (\$)	50,000
Net Present Value (\$)	1,723,489
Internal Rate of Return %	29.6
Payback (months)	42.75

Based upon an assumed cost of capital of 10%

Final Project Appraisal Summary

The Investment Appraisal outlined above is based upon identified benefits that would accrue to Prestigious Hotel Group as a result of project acceptance.

The investment evaluation of these costs and savings has been completed using the Shark appraisal tool. The output from this tool is fully visible and can be audited by Prestigious Hotel Group if so required.

This indicative analysis stands separately from the contractual elements of the Major Telecoms Company solution and is necessarily dependent upon the benefits identified jointly with Prestigious Hotel Group.