UNIVERSIDADE DA CORUÑA

Faculty of Business and Economics

Graduate Thesis

NH Hotel Group and the challenges of the hotel sector in Spain

Economic and financial analysis of the company and its major competitor in the sector

Laura Santaolalla Lorenzo

Tutoress: María Flora Muíño Vázquez

Degree in Business Management (Bilingual)

Year 2016

Final Degree Project presented at the Faculty of Business and Economics of the University of A Coruña to obtain the degree in Business Management (Bilingual)

Abstract

The numerous difficulties and challenges brought on by the economic and financial crisis for tourism in Spain, a key industry for the Spanish economy because of its great contribution to the GDP, makes it very interesting to examine what is the current environment and future perspectives of tourism in Spain and, more specifically, of the hotel sector due to its great relevance and economic impact. Once established this framework, the main objective of this graduate thesis is to conduct a review of the internal situation of NH Hotel Group, one of the two listed companies of the hotel sector in Spain. The methodology applied has been conducting an economic and financial analysis of the company by studying in depth its annual accounts along with the calculation and interpretation of relevant ratios, based on information obtained from the CNMV, the SABI database, and the consolidated financial statements of the company covering the period 2007-2014 (latest publication of its annual accounts at the starting date of this paper). After performing this analysis it can be concluded that the results of NH do not reflect the positive trend of the tourism industry in Spain, and that despite having improved its performance over the last two years, the future evolution of the company is unclear since it has been forced to slow down its international expansion projects and has not yet managed to reduce its very high costs which place a heavy burden on its results.

Key words: Financial statement analysis, Accounting quality, Earnings management, Tourism, Hotel sector, NH Hotel Group.

Resumen

Las numerosas dificultades y retos a los que se ha tenido que enfrentar el sector turístico en España, una de las actividades clave de la economía española debido a su elevada aportación al PIB nacional, durante la crisis económica y financiera, hacen que resulte muy interesante estudiar en qué situación se encuentra y cuáles son las perspectivas de futuro del turismo en España y, más concretamente, del sector hotelero debido a su gran relevancia e impacto económico. Una vez establecido el marco, el objetivo principal de este trabajo de fin de grado es llevar a cabo una revisión de la situación interna del Grupo NH Hoteles, una de las dos sociedades cotizadas del sector hotelero en España. La metodología aplicada ha sido la realización de un análisis económico-financiero de la empresa mediante el estudio en profundidad de sus cuentas anuales junto con el cálculo e interpretación de ratios financieros relevantes, en base a la información obtenida de la CNMV, de la base de datos SABI y de los estados financieros consolidados de la compañía abarcando el período 2007-2014 (última publicación de sus cuentas anuales a la fecha de inicio de este trabajo). Después de realizar este análisis se puede concluir que los resultados de NH no reflejan la tendencia positiva de la industria del turismo en España y, a pesar de haber mejorado su resultado durante los dos últimos años, la evolución futura de la empresa es incierta ya que se ha visto obligada a frenar sus proyectos de expansión internacional y aun no ha conseguido reducir sus elevados costes, los cuales suponen una gran carga sobre sus resultados.

Palabras clave: Análisis de estados financieros, Calidad de la contabilidad, Manipulación de beneficios, Turismo, Sector hotelero, NH Hotel Group.

Index

Index of figures

Index of tables

Introduction

Tourism constitutes one of the basic pillars of the Spanish economy, accounting for 12% of the gross domestic product (GDP) in 2014 (World Tourism Organisation, 2014) and being Spain one of the most visited destinations worldwide. Hence, because of the great importance of tourism for the Spanish economy, it is very relevant to study the evolution of its most important industry, the hotel sector, especially after the global economic crisis has presented numerous challenges to it.

The aim of this paper is, at first, to examine the current context and future trends of tourism in Spain, paying special attention to the hotel sector. Nevertheless, the main objective is to perform a thorough analysis of the economic and financial situation of NH Hotel Group, an emblematic firm in the hotel sector, in order to issue founded opinions about its situation and performance in the hotel sector in Spain. With these targets in mind, the paper is divided into four chapters that will be explained below.

Chapter one performs a general view of the role of tourism and the hotel sector in Spain. On the one hand, data provided highlights that tourism and the hotel sector are key in the proper functioning of the Spanish economy. On the other hand, the chapter also discusses the difficult years that the hotel sector in Spain had to endure during the deep economic and financial crisis and how, until 2014, the sector failed to return to competitive standards.

The second chapter focuses on the importance of high-quality accounting practices and how the quality of the accounting and financial information provided by companies in their financial statements can directly impact their performance. More precisely, after a theoretical background of the concept of earnings management, the annual accounts of NH Hotel Group for the period 2007-2014 are studied in detail to see whether the company has made use of result manipulation through misleading or incomplete financial information.

The third chapter performs a review of the internal situation of NH through an exhaustive study of its annual accounts. The first section conducts a patrimonial analysis through the study of the items in the balance sheet of the company; the second section executes an economic analysis based on its income statement; and the last section performs a financial analysis by computing several ratios of liquidity, solvency and profitability for questions regarding the profitability and risk of the company in order to provide a broader view of the business situation of NH. Data were obtained from the Spanish National Stock Market Commission (CNMV) and from the consolidated financial statements of the firm and information about Meliá Hotels International, its main competitor in the sector, is provided in order to be able to make comparisons.

And finally, chapter four seeks to analyse the performance of NH Hotel Group regarding the 50 largest companies in the Spanish hotel sector in which the company operates. To this end, the most important magnitudes of the annual accounts of these 50 companies were downloaded from the Spanish database SABI, and simple statistical calculations were made in order to discuss the results obtained more easily.

1 Overview of the role of tourism and the hotel industry in Spain

Tourism is the mainstay of the Spanish economy. In 2015, more than 68.1 million foreign tourists visited Spain, the highest figure in history, representing an increase of 4.9% with respect to 2014 (Frontur, 2016). Additionally, a poll conducted by the World Tourism Organization (2015) revealed that in 2014 Spain ranked second in tourism revenues worldwide, only after the United States, generating a total turnover of 49,100 million euros (Bank of Spain, 2016) and ranked third in arrivals with 65 million overnight visitors, just behind France and the United States. Hence, as tourism has historically been and continues to be one of the main pillars of economic development in Spain, accounting for 12% of the national GDP in 2014 (WTO, 2015), it is therefore crucial to study the evolution of its major industry: the hotel sector.

Among all sectors that constitute the Spanish tourism industry, the hotel sector has become one of the branches of the tertiary area of greater importance and economic impact (Dominguez, Fraiz and Alén, 2011). In 2014, the 500 largest companies and hotel groups in Spain reached a combined turnover of 20,856 million euros (Alimarket Hotels, 2015), exceeding by 7.5% the 19,403 million euros that these same firms obtained in 2013. Once deflated by the consumer price index of 1.2% registered in 2014 for hotel establishments, the real growth of this sector was 6.4% (Spanish National Institute of Statistics, 2016).

Unfortunately, the economic and financial crisis that began in 2007 in the major world economies lead to a widespread international economic downturn that promptly spread to Spain, adversely affecting both consumption and travel spending of Spain's major emitting countries as well as its own domestic market. Thus, due to the decline in demand, the oversupply of existing hotels and the general decrease in rates in order to maintain occupancy levels, between 2007 and 2009 both prices and occupation fell, negatively impacting on hotel revenues. Nevertheless, in 2010 the sector began to recover; a recovery that took place earlier in the hotel leisure segment as Spain has taken longer to emerge from the crisis and this segment is less reliant on the domestic economy than the urban segment. From 2014 onwards the sector has returned to competitive standards. The increase in business trips and getaways to cities in line with the economic recovery has resulted in an increase of 6.6% of the revenue per available room, RevPAR, of city hotels. It is noteworthy that, as this urban segment is more dependent on the domestic economy, hoteliers have had to make efforts in order not to raise prices despite the large increase of VAT in this sector. Additionally, resort hotels also closed 2014 with a positive balance, with an increase of 7.2% of the RevPAR (Spanish National Institute of Statistics, 2016). Factors behind these improvements have been the political and social instability of competitive destinations, as for instance Egypt, the growth of the issuer Russian market and the improvement of the disposable income of families of the main tourist-sending countries such as the UK, Germany and France.

Furthermore, over the past few years, the hotel map of Spain has gone through a process of adjustment regarding the category of hotels. A study carried out by the School of Tourism and Hospitality (2014) reveals that despite the fact that there have been changes in the distribution of hotels by regions, between 2007 and 2014 the total number of establishments has remained fairly constant registering an increase of only 0.2%, counting Spain at the end of 2014 with a total of 14,728 establishments. However, whilst the number of one-star hotels has been reduced by 15% during this period, 4-star and 5-star hotels have experienced an increase of 27.6% and 20.8%, respectively. The luxury segment has also undergone significant boost, a fact that indicates that the quality of tourism in Spain continues to rise.

Approximately 63 % of tourists who visited Spain in 2014 stayed in hotels (Institute for Tourism Studies, 2016). Notwithstanding, a trend that has adversely affected the sector is that the percentage of foreign tourists staying in rental housing grew 17.2% in 2014, resulting in four years in which its growth has been higher than the increase of tourists staying at hotels, which only grew by 5.3% in 2014 (Exceltur, 2015). This results in a lower economic impact of these tourists as a survey conducted by the Institute for Tourism Studies (2016) estimates that, without taking into account transport, tourists staying in rented houses spend an average of 67 euros per day, while this figure rises to 114 euros for tourists staying at hotels. Hence, in a sector characterized by the oversupply of accommodation capacity, 60.8% of Spanish hotel establishments estimate that they have suffered a decline in results between 0 and 5%

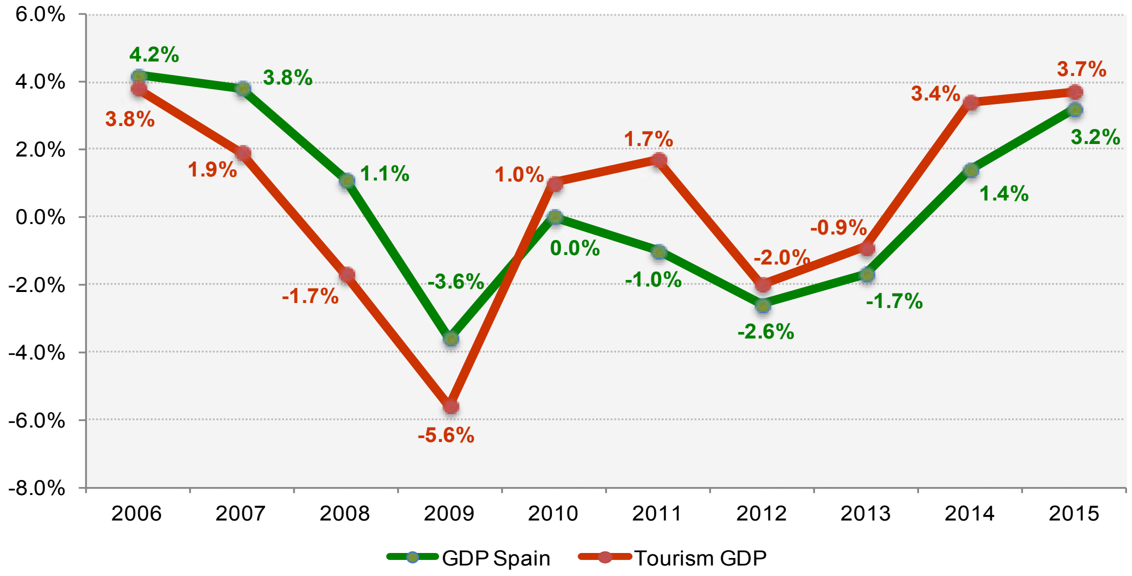
due to the exponential growth of the renting of unregulated holiday apartments (Exceltur, 2015).

It is also believed that the hotel sector has played a significant role in ending the crisis (Gómez and González, 2014) as it has managed to resist to the severe economic recession. Data provided by the International Monetary Fund (2016) shows that in 2014 approximately 184,200 people directly worked in a hotel, and although this data reflects a decrease of almost 8% with respect to 2008, it represents an increase of almost 0.9% compared to 2013. Furthermore, direct employment generated by hotels amounts to 0.8% of the labour force, a figure that has remained practically unchanged since the outbreak of the economic crisis until today.

To conclude, from a macroeconomic perspective, there are different opinions regarding the correlation and the importance of the evolution of tourism and the hotel sector on the Spanish economy.

On the one hand, this mass tourism highly dependent on the economic trends of its main emitting countries, such as the UK, Germany, France and Italy, and concentrated during the summer months is said to lack competitiveness (Page, 2014). Even though the sector has contributed positively to the growth of the Spanish economy, data provided by the Spanish National Institute of Statistics (2016) reveals that the tourism GPD, and hence the hotel sector, has had a worse performance than the average of the national economy from 2006 to 2009, being 2009 particularly noteworthy since, as it is illustrated in Figure 1.1, the GDP of Spain fell 3.6% while its tourism GDP fell 5.6%. Even after 2010 the hotel sector has shown the evolution of a stagnant sector that has not been able to take full advantage of the improvement of the domestic economy because of its structural problems. Consequently, over the past decade the sector has experienced a significant decline in relative importance within the national GDP, a completely opposite trend that followed the tourist and hotel industry during the 1980s and 1990s, where tourism grew well above the rest of the economy (Exceltur, 2010).

Figure 1.1 Annual rate of change of tourism GDP compared to the total GPD of the Spanish economy, 2006-2015 (%)



(Source: Own elaboration with data from Spain's National Institute of Statistics, Exceltur and International Monetary Fund)

On the other hand, from 2010 onwards tourism and the hotel sector have begun a path of growth, achieving real growth above the recorded by the Spanish economy. Whilst at the end of 2012 the weight of the tourism sector was only 10.9% of GDP, this reached 12% of the total Spanish GDP at the end of 2014. Additionally, the contribution of tourism to the GDP was valued at more than 112,000 million euros at the end of 2012 and, after two consecutive years on the rise, the value of tourism to the Spanish economy climbed to almost 116,500 million euros at the end of 2014. Finally, as the figures for 2015 are still provisional, if the industry were confirmed to have grown 3.2% during 2015, the contribution of tourism would amount to 120,000 million euros (Spanish National Institute of Statistics, 2016).

All these arguments and data presented above highlight the fact that the hotel sector is of great strategic importance for the evolution of the Spanish economy and that therefore the industry has to become more profitable and competitive.

2 The quality of accounting information

In accordance with the International Accounting Standards or IAS (2007), the objective of financial statements is to provide information about the financial position, performance and changes in financial position of a firm that is useful to a wide range of users in making economic decisions.

Additionally, in order to be helpful to readers, the information provided in financial statements must comply with the qualitative characteristics of relevance, reliability, understandability and comparability. More specifically, it is considered that financial information is relevant when it influences the economic decisions of users by helping them evaluate past, present and future and events; and that it is reliable when it is free from material error and represents faithfully, with neutrality, prudence and completeness, the financial statements of the firm (IAS, 2007).

Therefore, as it has been demonstrated that generally investors do not entrust their funds to a company that provides inaccurate information; banks do not give credits unless they are provided with enough information about the likelihood of receiving interests and eventual repayment of the loan; suppliers may not wish to give credit to a firm which has a reputation for producing poor-quality information; and ultimately customers may distrust the company and choose to buy the products or services to the competition (Weetman, 2011), all these reasons evidence the great role that the quality of the financial statements of a company has in affecting its performance.

One way to assess accounting quality is examining whether a company has made use of result manipulation through deceitful or incomplete financial reporting (Levitt, 1998), also referred to as earnings management. More concretely, earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports in order to mislead stakeholders about the real underlying economic performance of the company (Healy and Wahlen, 1999).

However, the concept is not easily definable and, as Dechow and Skinner (2000) state, sometimes it is hard to distinguish certain forms of earnings management from appropriate accrual accounting choices. In particular, while financial-reporting choices that explicitly violate the International Financial Reporting Standards applicable to Spanish companies can clearly constitute both fraud and earnings management, it also seems that systematic choices that are made within these regulations can constitute earnings management. Hence, it becomes very difficult to distinguish in practice earnings management from the legitimate exercise of accounting discretion.

Shareholders of companies do not have the right of access to the records of the everyday activities of a business, and so they need someone to act on their behalf to ensure that managers are presenting a true and fair view of the company's position and the profits generated during the financial year (Weetman, 2011). To achieve this certainty, shareholders appoint a firm of auditors to investigate the company's financial statements and give an opinion on the truth and fairness of the financial information presented. In this manner, in all the years of the period being studied, from 2007 to 2014, the company that has audited the NH Hotel Group, Deloitte, has issued favourable audit reports in which the firm considered that the consolidated financial statements of NH presented fairly the financial position of the group. I agree with this opinion and consider that the financial statements of the company are reliable but, after having exhaustively studied both the consolidated financial statements and the corporate responsibility reports of the NH Hotel Group for all these years, I have found some evidence to suggest that the firm could have managed its results in 2012. Therefore, the following paragraphs present the different ways that a company has to disguise its financial statements and specifically discuss the technique that NH Hotels might have used in order to manipulate its financial results.

One of the methods used to manage earnings is known as "income smoothing" and takes place when a company carefully times the recognition of its revenues and expenses to even out the amount of reported earnings in different years (Stice and Stice, 2014). This technique gives the company a sense of stability and reduced risk and can make it easier for the company to obtain loans as well as attract investors.

This practice is closely linked to the technique known as "cookie jar reserves", which consists on not declaring a portion of the proceeds during good years in order to save those profits for the bad years (Wild, Subramanyam and Halsey, 2007). When analysing the annual reports of the different periods, and as Figure 2.1 below shows, it can be observed the high volatility of the net income in each financial year, so that the idea of NH undertaking a strategy of "income smoothing" of its net income can be discarded.

Figure 2.1 Net income of NH, 2007-2014 (€ thousand)

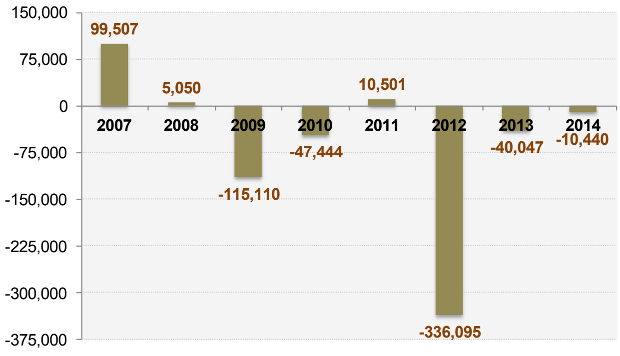
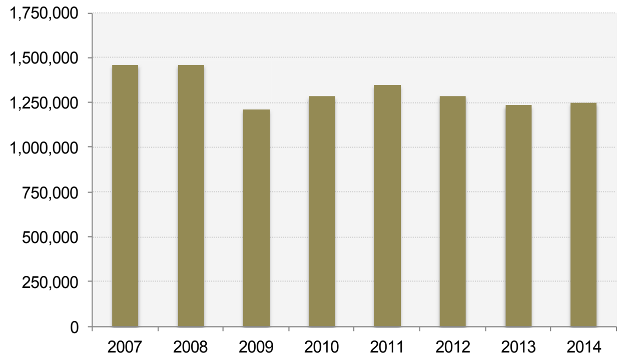


Figure 2.2 Net turnover of NH, 2007-2014 (€ thousand)



(*Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)*

However, although it is true that the company has had a relatively flat net turnover throughout the period being studied, as it is reflected in Figure 2.2, no anomalies were found in the annual accounts with respect to revenue recognition and, consequently, this trend can be explained by a very similar rate of occupancy of its hotels in all these years.

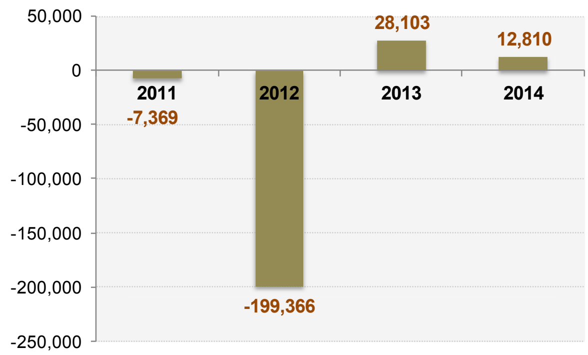
Notwithstanding, and although it can be a pure coincidence, there is evidence that indicates how in 2012 the company could have attempted to undertake the strategy that is known as "big bath". The concept behind a big bath is that a company experiencing low earnings in a given year may take discretionary write-downs to further reduce earnings in the current period (Jordan and Clark, 2004), under the premise that the firm and its management team will not be punished proportionately more if the large losses of the company during a period become even larger. Thus, this technique is often implemented in a bad year to artificially enhance profits in the following years.

One way to execute a big bath is through a large restructuring charge in which assets are written off and the expenses associated with future restructuring obligations are recognized immediately. Therefore, even though it is true that due to the deep economic downturn the year 2012 was by far the worst performance of the business, there are certain indicators that reveal how the group could have made these very bad results look even worse.

For instance, every year NH assesses whether there is a loss of value that would oblige the company to reduce the carrying amounts of its tangible and intangible assets. In accordance with the accounting principles, a loss exists when the recoverable value of the asset, which is either the net sale value or the value in use, whichever is higher, is less than its carrying amount. Nevertheless, as illustrated in Figure 2.3, the amount of losses from asset impairment in NH during 2012 draws much attention. It could have been that in that year, since results were already terrible, the company strictly tested the recoverable amount of its owned hotels and, as the estimated recoverable amount of many of its hotels in Spain and Italy was lower than its carrying amount, NH adjusted the recoverable value of its assets by deciding to increase the asset impairment provision that the company had been recording up to a total of 268 million euros to avoid having to incur these costs in subsequent years. Consequently, instead of incurring in a net loss of 66.9 million euros in 2012, the group closed the year with a consolidated net loss of 337 million euros.

However, in 2013 and 2014 certain of these impairment losses were subsequently reversed and as a result the carrying amount of these assets was increased, always with the limit of the original value at which these assets were recognized before the loss of value was recognised, and thereby becoming a revenue for the NH, making its results slightly better than what they should be.

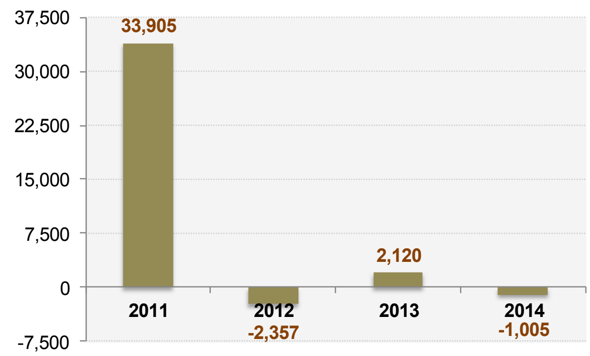
Figure 2.3 Net gains and losses from asset impairment of NH, 2011-2014 (€ thousand)



(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

Moreover, during 2012 the group also de-recognised furnishing, facilities and equipment as a result of the withdrawal from unprofitable hotels and the cancellation of lease agreements. Therefore, even if the volume was not very high, as reflected in Figure 2.4, 2012 became the first year in which the company incurred material losses from the disposal of non-currents assets.

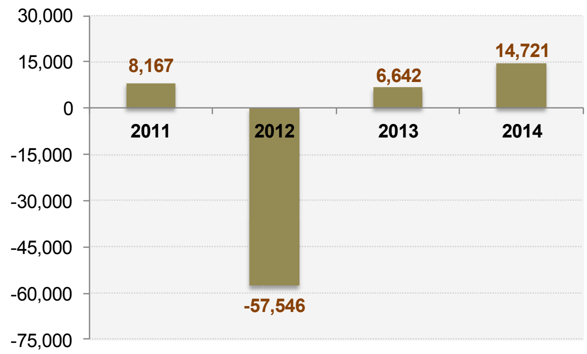
Figure 2.4 Net gains and losses on disposal of non-current assets, 2011-2014 (€ thousand)



(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

Furthermore, NH considers onerous agreements as those in which the inevitable costs of fulfilling the obligations these entail exceed the economic benefits that are expected from them. These provisions are measured at the best estimate, including risks and uncertainties, of the differences arising between the costs and benefits of the contracts or the compensations expected for the abandonment of these contracts, and during 2012 provisions for liabilities and charges in NH grew inordinately, recording the group an expense of 57 million euros. The company recorded provisions for a number of hotel lease agreements, to which it is committed between 2013 and 2030, and on which the group makes an operating loss, as onerous, as the cancellation of these agreements could force the company to make full payment of rent for the outstanding years of the lease. However, these forecasts could have again been exaggerated as these provisions were partially reversed in 2013 and 2014.

Figure 2.5. Variation in the provision for onerous agreements, 2011-2014 (€)



(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

In this way, during 2013 and 2014 NH incurred losses of 40 and 10.4 million euros respectively but if the company had not conducted this strategy similar to a big bath these losses would have been much higher in comparison to those suffered in 2012.

Lastly, new CEOs sometimes use the big bath so they can blame the poor performance of the company on the previous CEO and take credit for the improvements in the following years. This is further evidence as Mariano Pérez Claver had been the CEO of NH Hotel Group during 2010 and 2011 and, in 2012, Rodrigo Echenique Gordillo took his place, a position he has held for 2013 and 2014. Besides, shortly after Rodrigo Echenique Gordillo occupied the post, the hotel chain announced a change of its corporate name and renamed itself as it is known nowadays, NH Hotel Group, with the aim of cutting ties with the past and start from clean slate.

All these evidences above described that indicate a possible big bath strategy in 2012 have implications for the economic and financial analysis of the financial statements of the group that it is going to be performed in the following chapter. More specifically, the accounting information for the years 2013 and 2014 should be carefully studied insomuch as the apparent recovery of NH during 2013 and 2014, which will be explained below, can be partially attributed to the overestimation of impairment losses in 2012.

3 Financial statement analysis

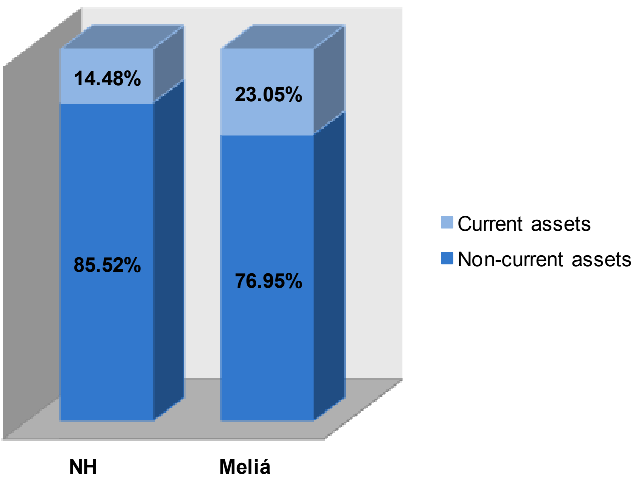
This chapter conducts a review of the internal situation of NH Hotels by studying in depth its annual accounts and by comparing them, when appropriate, with those of its major competitor in Spain, Meliá Hotels. The data has been obtained from the CNMV, which is the regulatory body of the Spanish Stock Market, and from the consolidated financial statements of both firms. The first section performs a patrimonial analysis by discussing both the economic structure of the company through the analysis of its assets and the financial structure, this is, the different sources of funding used by the company: shareholders' equity and liabilities. The second section performs an economic analysis by examining the main components of the income statement of NH. Finally, the third section carries out the calculation and interpretation of relevant ratios to provide additional information.

3.1 Patrimonial analysis

3.1.1 Economic structure

To begin with, when conducting the percentage analysis of the economic structure of NH Hotels and its main competitor in Spain, Meliá Hotels, in order to be able to make comparisons, it can be seen the great weight that on a recurrent basis non-current assets have had in each of the companies, which is depicted in the figure below.

Figure 3.1. Average structure of assets of NH and Meliá, 2007-2014 (%)

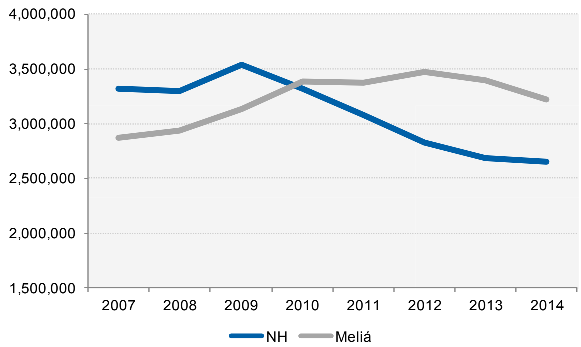


Thereby, as for the temporal evolution, NH's non-current assets have always represented around 85% of its total assets, a typical asset composition of the hotel industry, where real estate investments are very high. Consequently, its current assets had been fairly low, only accounting as an average for 15% of total assets.

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

As evidenced in Figure 3.2, the highest value of total assets for NH was reached in 2009, but from that year onwards the effects of the economic downturn forced the company to get rid of its non-strategic assets that were reporting the lowest benefits, as it will be discussed next, and consequently NH closed the year 2014 with a total level of assets nearly 25% lower than in 2009. On the contrary, the asset structure of its competitor Meliá Hotels for the period 2007-2014 is stronger and reflects steady growth, primarily because of its greater seniority in the sector. Thus, despite the fact that Meliá has experienced some financial fluctuations over recent years, the company has managed to increase the value of its assets by 12.22% in these past 8 years.

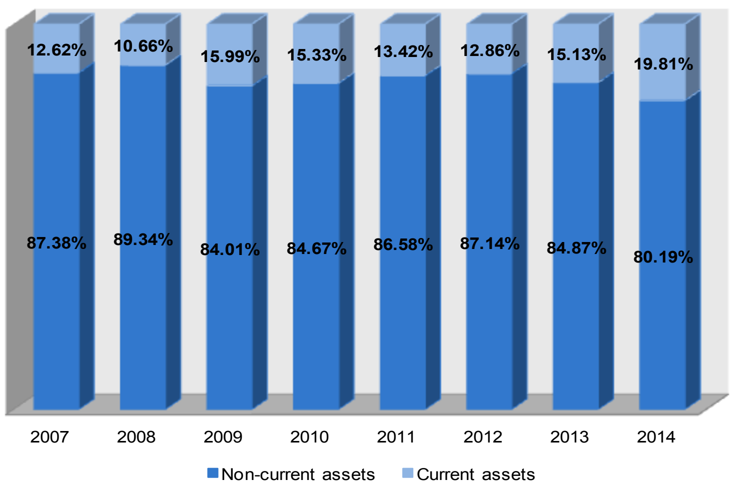
Figure 3.2 Evolution of the total assets of NH and Meliá, 2007-2014 (€)



(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

However, it is noteworthy that non-current assets have had a greater weight in NH than in its competitor and, despite having fallen by almost 5% in 2014 with respect to 2013, as can be seen in Figure 3.3, they still accounted for 80.19% of total assets in comparison to 74.37% in Meliá.

Figure 3.3 Structure of assets of NH by year, 2007-2014 (%)



(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

It is conducted in the following table a vertical analysis of the key items comprising NH's assets, as this technique emphasizes the relative weight of each of these items and helps reveal significant changes in the materiality and relative importance of them. These percentages are calculated by dividing the items under analysis by a base amount, in order to avoid differences that may be owed to the different size of companies, and which in this case is the total amount of assets. The table reports only some of the main elements of the assets of NH and the full balance sheet can be found in the Table 1 of Annex 1.

Table 3.1 Vertical percentages of the main items of the assets of NH, 2007-2014 (%)

(€ Thousands)	2007	2008	2009	2010	2011	2012	2013	2014
A) NON-CURRENT ASSETS	**2,901,694**	**2,943,193**	**2,972,399**	**2,811,701**	**2,664,530**	**2,461,982**	**2,280,912**	**2,129,358**
Intangible assets	235,056	244,712	244,502	236,333	227,543	193,906	169,837	172,765
	7.08%	**7.43%**	**6.91%**	**7.12%**	**7.39%**	**6.86%**	**6.32%**	**6.51%**
Property, plant and equipment	2,397,647	2,402,489	2,386,093	2,199,307	2,108,812	1,869,183	1,714,980	1,606,360
	72.20%	**72.93%**	**67.44%**	**66.23%**	**68.52%**	**66.16%**	**63.81%**	**60.49%**
Non-current financial investments	140,811	156,148	158,809	177,051	111,409	110,369	111,599	163,474
	4.24%	**4.74%**	**4.49%**	**5.33%**	**3.62%**	**3.91%**	**4.15%**	**6.16%**
Deferred tax assets	44,646	53,053	105,290	119,574	134,936	211,184	198,782	157,858
	1.34%	**1.61%**	**2.98%**	**3.60%**	**4.38%**	**7.47%**	**7.40%**	**5.94%**
B) CURRENT ASSETS	**419,002**	**351,124**	**565,671**	**509,196**	**412,959**	**363,353**	**406,596**	**526,081**
Inventories	118,313	128,559	126,037	118,973	116,228	106,005	79,635	8,226
	3.56%	**3.90%**	**3.56%**	**3.58%**	**3.78%**	**3.75%**	**2.96%**	**0.31%**
Trade debtors	164,972	127,998	119,817	127,394	121,191	117,943	119,195	136,012
	4.97%	**3.89%**	**3.39%**	**3.84%**	**3.94%**	**4.17%**	**4.44%**	**5.12%**
Other receivables	44,796	61,108	59,921	72,139	68,677	63,706	58,209	57,874
	1.35%	**1.85%**	**1.69%**	**2.17%**	**2.23%**	**2.25%**	**2.17%**	**2.18%**
Cash and cash equivalents	61,699	17,032	221,585	173,117	91,143	41,445	133,869	200,103
	1.86%	**0.52%**	**6.26%**	**5.21%**	**2.96%**	**1.47%**	**4.98%**	**7.54%**
TOTAL ASSETS	**3,320,696**	**3,294,317**	**3,538,070**	**3,320,897**	**3,077,489**	**2,825,335**	**2,687,508**	**2,655,439**

(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

Next, it is going to be analysed in greater detail the main headings that comprise the assets of NH Hotels.

3.1.1.1 Non-current assets

Starting with NH's non-current assets, they can be briefly defined as those assets and rights controlled by the company that are expected to contribute to its activities over a long period of time. In this section it is remarkable the heading of property, plant and equipment, since it represents on average 67.23% of total assets. This is consistent with the type of business NH is, as the firm has a large hotel plant distributed throughout the world that was enlarged very significantly in 2009 when NH began the process of integration with Hesperia. As illustrated in Table 3.2, this merger added a large number of hotels to NH's portfolio.

Table 3.2 Evolution of the number of hotels and rooms of NH, 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
Number of hotels	341	345	401	397	397	391	379	363
Number of rooms	49,677	51,591	61,311	58,687	59,052	58,853	58,195	57,127

(Source: Own elaboration with data from NH Hotel Group consolidated financial statements)

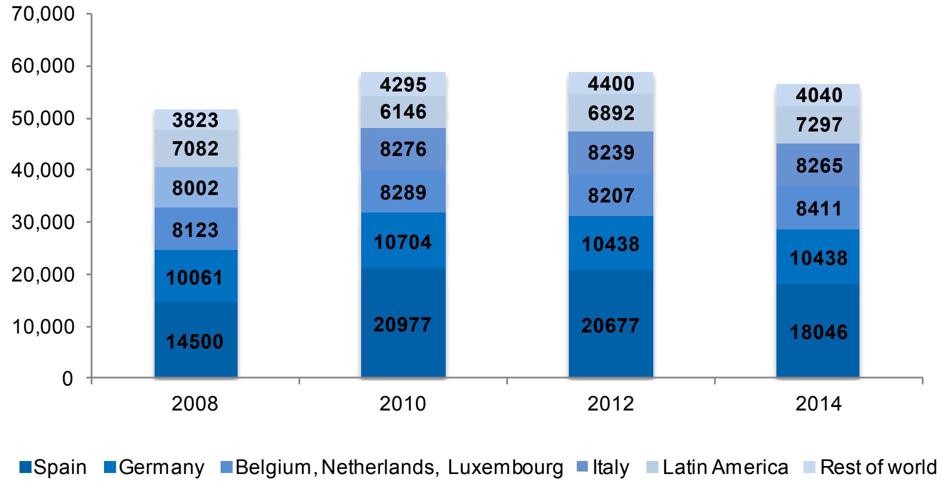
However, as evidenced by the vertical percentages in Table 3.1, the trend shows a drop in its weight relative to total assets, primarily because of the strategic initiative that involved better asset management and hence the exit of establishments during the economic crisis that were failing to meet the expectations of the group. As a result, the value of these tangible assets was in 2014 32.68% lower than in 2007, while for Meliá the trend was quite the opposite: property, plant and equipment was worth in 2014 21.73% more than in 2007.

The streamlining of NH's portfolio, as reflected in the chart below, began in 2012 when the chain exited 10 establishments in Spain, Italy, Germany, UK and Czech Republic.

In the same way, in 2013 the company continued lessening its hotel portfolio by reducing its number of establishments by fourteen, mainly in Spain and Italy, as it is reflected in Figure 3.4, since the economic recession hit these two countries more severely, and twelve projects, which had already been signed, were cancelled.

Lastly, in 2014 numerous actions were carried out in this context as NH reduced its number of establishments by 20 in 15 cities in Spain, representing a total of 1,859 rooms; sold one of its hotels with more historical significance in the company, the Grand Krasnapolsky in Amsterdam; signed a pre-contract with the US real estate group HPT for the sale of five hotels in Latin America by 70 million euros; and finally, sold 97% of Sotogrande S.A. for 225 million euros, a measure that allowed NH to keep other strategic assets for the firm and at the same time obtain funding for the new Strategic Plan of the company, which will be conducted between 2014 and 2018.

Figure 3.4 Evolution of the number of rooms of NH by country, 2007-2014



(Source: Own elaboration with data from NH Hotel Group consolidated financial statements)

In short, the total outflows of these operations were primarily invested in renovating numerous hotels, with the addition of only a few new ones to its portfolio. For instance, and only because the financial equilibrium had been restored and the group had been taking steps in order to return to growth, in 2014 NH added nine hotels to its portfolio, four new openings and five agreements that had already been signed. Nevertheless, these openings were still far from the levels that were achieved in the years 2008 and 2009 and, as a result, NH has reduced in 4,184 its number of rooms available since 2009, which has resulted in its total level of assets in 2014 to stand at levels prior to 2007, more precisely similar to those of 2006, amounting to 2,700 million euros. Besides, and unsurprisingly, all these divestments have had a direct impact on sales, as will be seen in greater detail below in the third section when the net turnover is assessed, with a drop of almost 60 million euros in 2012 and 54 million euros in 2013.

Due to the uncertainty that still runs through NH, at present the company continues with a policy of operating its hotels under less capital-intensive forms. Thus, NH has completely cancelled direct acquisitions and has modified existing leases by virtue of other less expensive methods such as franchises. Finally, and with the objective of narrowing the gap that has been created between the company and its direct competitors in Spain, particularly with Meliá, the group has announced that among the main measures of its Strategic Plan are continuing with the sale of non-strategic assets alongside with hotel refurbishment, new technologies for online sales and a renewed brand structure.

3.1.1.2 Current assets

Continuing with the current assets of NH, they are those assets that are expected to be consumed or converted into cash within the company's normal operating cycle.

Current assets in NH have experienced a rising trend, going from weighting 12.62% of total assets in NH in 2007 to 19.81% in 2014. However, Meliá has experienced a similar but even more pronounced tendency because during these last eight years its level of current assets has grown by 10%. The main items comprising the current assets of NH are inventories, cash and cash equivalents and trade debtors, the latter being those that have the greatest weight under the heading of current assets despite being its weight small when compared to total assets.

Beginning with inventories, they have a reduced weight in NH given that companies in the hospitality industry do not have large stocks. Basically, in these companies inventory is composed of bed linen, towels and toiletries, among others. However, it is noteworthy that NH had real estate stocks classified as inventory that consisted of buildings under construction and complete, developed land, undeveloped land and ancillary materials owing to its real estate operations through Sotogrande S.A. Therefore, as already discussed earlier, after the sale of Sotogrande S.A. which took place in 2014, NH no longer holds inventories of this nature and this is why, as depicted in Table 3.1, the weight of NH's inventories with respect to its total assets has gone from 3.58% as an average for the period 2007-2013 to only 0.31% in 2014.

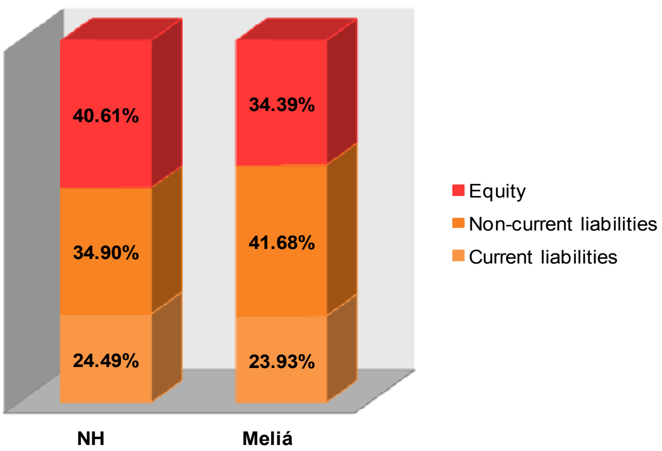
Treasury, which consist of cash, demand deposits and other short-term and highly liquid investments that can be realised in cash quickly, is the item that has experienced the largest variation under this heading throughout the period being studied, and is the main raison why current assets of NH have less weight over total assets than Meliá's: while the average percentage for the past eight years of cash and cash equivalents over total assets has been 11.73% for Meliá, it has only been less than half in NH, hovering around 3.85%. The money NH has had in its bank accounts was already scarce since the beginning of the period being studied, a policy which, as will be discussed in the following sections, resulted in a high financial leverage. Cash was particularly scarce during 2007, 2008 and in 2012 and thus, as NH did not have large cash flows to cover new investments, the company had no choice but to sell, as it was previously explained above, its less profitable assets in order to obtain some liquidity. Fortunately, these measures appear to have functioned as, since 2013 and 2014, NH's immediate liquidity position has started to improve. Likewise, the financial support that the company has obtained after successfully refinancing its debt, which will be discussed in the next section when analysing the financial structure of the company, has served to increase its available cash.

Finally, it must be mentioned that NH maintains a fairly steady rate of its accounts receivable in the short-term, always oscillating along the entire period between 117 and 164 million euros. When compared with those of its competitor Meliá, although they are quite superior in Meliá if looking merely to figures, both companies exhibit a similar tendency with regard to its weight on total assets, hovering around 4% as an average in both companies. This proves that in this industry trade debtors do not have a large weight overall because customers usually pay in cash.

3.1.2 Financial structure

This section analyses the financial structure of NH, which is composed of equity and both non-current and current liabilities. Whilst the economic structure exhibit certain similarities at a general level between NH and its competitor Meliá, on the funding side, as reflected in Figure 3.5, certain differences can be appreciated.

Figure 3.5 Average structure of equity and liabilities of NH and Meliá, 2007-2014 (%)



While total liabilities for NH represent 60% and equity 40%, in Meliá equity represents about 35% and total liabilities the other 65%. However, both companies have had on average a nearly identical level of short-term debt.

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Analysing these past eight years it can be seen that overall Meliá has increased its current liabilities to the detriment of its non-current liabilities and equity has remained fairly constant, slightly increasing its weight as compared to 2007.

Figure 3.6 Evolution of equity and liabilities in NH, 2007-2014 (€ thousand)

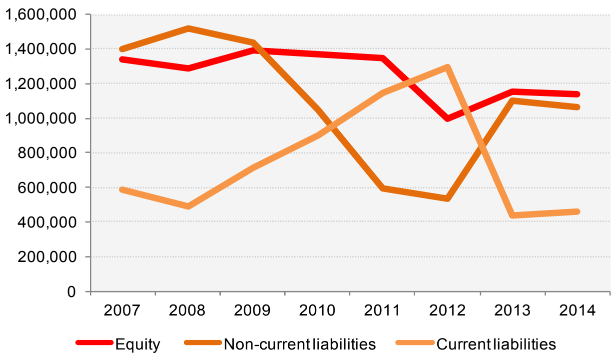
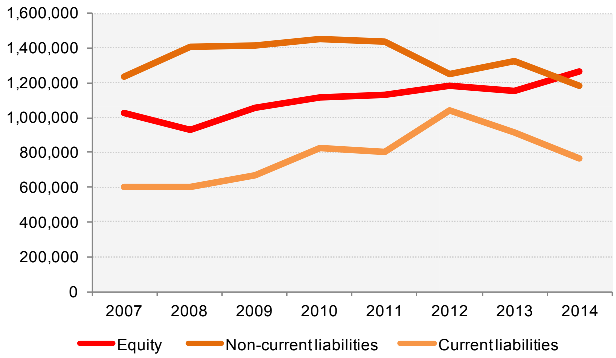


Figure 3.7 Evolution of equity and liabilities in Meliá, 2007-2014 (€ thousand)

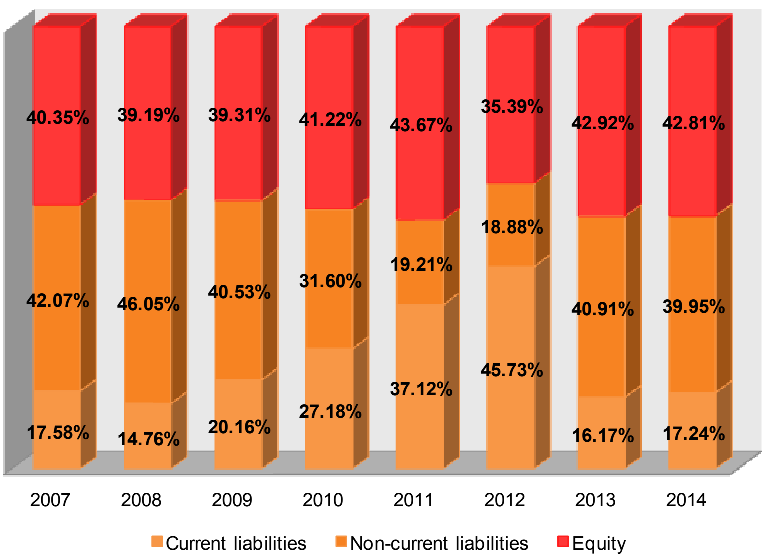


(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

However, in the case of NH, the behaviour of both its equity and liabilities cannot be briefly described at first, as it has not followed a clear and distinct trend, as it is shown in Figure 3.7.

Thus, on the one hand, it can be stated that own resources are widely used as a source of funding in NH since equity has always represented a fairly high percentage, although it varies from 43.67% in 2012 to 35.39% in 2012, as depicted below.

Figure 3.8 Structure of equity and liabilities of NH by year, 2007-2014 (%)



(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

On the other hand, it is going to be explained next why there have been such fluctuations and sudden changes throughout the period being studied in the weight of both its short-term debt and long-term debt, especially between 20011 and 2013. In any case, it can be affirmed that overall NH finances itself with far more long-term debt than short-term debt.

Now, and using the vertical percentages calculated in Table 3.3, the main elements that compose this heading are going to be analysed in greater detail. Again, the table presents only some of the key elements of the shareholders' equity and liabilities of NH, and a complete balance sheet that discloses all elements can be found in the Table 2 of Annex 1.

Table 3.3 Vertical percentages of the main items of the equity and liabilities of NH, 2007-2014 (%)

(€ Thousands)	2007	2008	2009	2010	2011	2012	2013	2014
A) SHAREHOLDERS EQUITY	**1,339,810**	**1,291,102**	**1,390,924**	**1,368,817**	**1,343,797**	**999,833**	**1,153,471**	**1,136,668**
Share capital	295,941 **8.91%**	295,941 **8.98%**	493,235 **14.97%**	493,235 **14.85%**	493,235 **16.03%**	493,235 **17.46%**	616,544 **22.94%**	700,544 **26.38%**
Consolidated Profit / (Loss)	77,443 **2.33%**	26,792 **0.81%**	-97,100 **2.95%**	-41,296 **1.25%**	6,231 **0.19%**	-292,110 **8.87%**	-41,562 **1.26%**	-9,550 **0.29%**
B) NON-CURRENT LIABILITIES	**1,397,110**	**1,517,032**	**1,434,024**	**1,049,418**	**591,305**	**533,459**	**1,099,552**	**1,060,852**
Provisions for risks and charges	60,530 **1.82%**	47,393 **1.44%**	54,114 **1.53%**	30,706 **0.92%**	30,846 **1.00%**	57,276 **2.03%**	66,735 **2.48%**	56,930 **2.14%**
Non-current financial liabilities	1,044,458 **31.45%**	1,189,798 **36.12%**	1,109,740 **31.37%**	750,613 **22.60%**	293,003 **9.52%**	222,459 **7.87%**	798,999 **29.73%**	808,295 **30.44%**
Deferred tax liabilities	276,379 **8.32%**	258,358 **7.84%**	255,511 **7.22%**	257,155 **7.74%**	246,204 **8.00%**	233,939 **8.28%**	201,225 **7.49%**	179,730 **6.77%**
C) CURRENT LIABILITIES	**583,776**	**486,183**	**713,122**	**902,662**	**1,142,387**	**1,292,043**	**434,485**	**457,919**
Provisions for contingencies	8,519 **0.26%**	8,519 **0.26%**	10,756 **0.30%**	14,529 **0.44%**	1,241 **0.04%**	53,458 **1.89%**	26,270 **0.98%**	14,835 **0.56%**
Current financial liabilities	253,606 **7.64%**	195,597 **5.94%**	394,809 **11.16%**	508,363 **15.31%**	833,137 **27.07%**	900,583 **31.88%**	102,192 **3.80%**	75,484 **2.84%**
Trade creditors	235,552 **7.09%**	208,246 **6.32%**	234,469 **6.63%**	226,879 **6.83%**	235,678 **7.66%**	260,732 **9.23%**	229,588 **8.54%**	231,427 **8.72%**
Other payables	27,827 **0.84%**	26,164 **0.79%**	36,254 **1.02%**	30,635 **0.92%**	35,672 **1.16%**	43,116 **1.53%**	30,181 **1.12%**	24,569 **0.93%**
TOTAL LIABILITIES AND EQUITY	**3,320,696**	**3,294,317**	**3,538,070**	**3,320,897**	**3,077,489**	**2,825,335**	**2,687,508**	**2,655,439**

(Source: Own elaboration with data from the CNMV and NH Hotel Group consolidated financial statements)

3.1.2.1 Equity

Starting with equity, an outstanding element in this heading is share capital, as it has experienced significant growth during 2013 and 2014, arriving to reach during the last year 26.38% of total equity and liabilities as compared to just 8.91% in 2007. NH's share capital has been rising driven by the increasing number of shares held by the group, given that during the period being analysed, the General Meeting of Shareholders of the parent company approved three capital increases. The first one was held in 2009, through the issuance of over 98 million new shares. Then again, in order to get external financing, NH announced a second capital increase in 2013, with the issuance of more than 300 million new shares that were fully subscribed and paid by the Chinese group HNA. Thanks to this operation NH got liquidity amounting to 234 million euros, in exchange for ceding to HNA a 20% of its share capital. However, and due to the difficult financial situation that the company was facing and the fact that NH had not distributed dividends since 2008, at the end of 2013 and start of 2014, all financial institutions that had participation in the shareholding of NH, such as Bankia, Ibercaja and Nova Galicia, among others, sold their shares (El País, 2013). Thus finally, the last capital increase in 2014 involved the issuance of 42 million new ordinary shares. In this way, at 31 December 2014, the Parent Company's share capital after the capital increase was represented by more than 350 million fully subscribed and paid up bearer shares with a nominal value of 2 euros each. Recently, on January 28 2014, HNA has purchased an extra 12.5 million shares of NH owned by Pontegadea, so that the Chinese group currently controls 24.06% of the Spanish hotel chain.

On the contrary, it draws attention in a negative manner the loss for the year 2012 as, after having shown profits of 6.2 million euros in 2011, the company incurred in a loss of -292.1 million euros. As already explained in the chapter of accounting quality, from NH they maintain that given the poor economic situation of the market mainly in Spain and Italy, the main countries where NH conducts its business, the company had to greatly increase the provision for impairment of assets. In 2013 the final loss for the financial year decreased to -41.5 million euros, an 85.7% lower than the previous year, as the company did not longer had to record provisions for impairment of its assets and part of these were reversed, artificially inflating the result for 2013 and 2014 as without these reversions of the impairment provision the loss would be higher. Besides, the loss was lower thanks partly to the rise of recurring revenues to 1,265.1 million euros, 12.5 million euros more than the previous year, and the increased net capital gains of non-recurring activities.

3.1.2.2 Non-current liabilities

Following with the company's non-current liabilities, they are formed up by deferred tax liabilities, provisions for risk and charges but mainly by non-current financial liabilities. Taking a look at both Figure 3.8 and Table 3.3, it can be observed that NH'S non-current financial liabilities greatly decreased during 2011 and 2012, given that in those years NH failed to comply with debt covenants and debts matured because of this failure. Nevertheless, during the last quarter of 2013, and consistent with the low liquidity that the firm had had the previous years, the company negotiated with its creditors and managed to reclassify its short-term debt to long-term debt by fully refinancing its debt through various loans, for a total of 775 million euros, thereby improving the quality of its debt. These loans obtained were divided into convertible bonds, covered bonds, a syndicated loan and two subordinated loans.

Therefore, this is the reason why from 2012 to 2013 NH's non-current liabilities increased 106.12% and its current liabilities decreased 66.37%. In this way, NH managed to lengthen the maturity of its debt in different periods, of which more than half mature from 2018 onwards.

3.1.2.3 Current liabilities

Lastly, to end with the financial structure, current liabilities in NH had a growing and very high evolution until 2012, when they reached 45.73% of total liabilities and shareholders' equity, against the 17.58% of 2007. They consist mainly of current financial liabilities and trade creditors, and whereas the weight of NH's trade creditors has remained steady between 6 and 9% of total shareholders' equity and liabilities, the burden of the current financial debt has presented many oscillations, as already discussed above.

In this manner, it is noteworthy that between 2009 and 2012 financial debts had a greater weight than commercial debts and particular attention is drawn to the high amounts owed to credit institutions during 2011 and 2012, accounting for 27.07% and 31.88% of total equity and liabilities respectively, that became 3.80% in 2013, reversing the trend of previous years.

Finally, the most prominent element in 2014 was trade creditors, accounting for 8.72% of total equity and liabilities, not exceeding 3% any other heading.

3.2 Economic analysis

Analysis also benefits from the use of a common-size income statement, and therefore Table 3.4 presents the vertical percentages of the main revenues and expenses that constitute the income statement of NH. As this table presents only the major revenues and expenses, the comprehensive profit and loss statement can be found in the Table 3 of Annex 1.The net turnover figure has been used as the base amount, and hence each item appears as a percentage of NH's revenue for the year.

Table 3.4 Vertical percentages of the main items of the income statement of NH, 2007-2014 (%)

(€ Thousands)	2007	2008	2009	2010	2011	2012	2013	2014
(+) Net turnover	1,458,962	1,460,108	1,209,750	1,281,940	1,346,006	1,286,033	1,232,172	1,246,954
(-) Purchases	-132,425 **9.07%**	-129,476 **8.87%**	-91,329 **7.55%**	-83,559 **6.52%**	-78,078 **5.80%**	-79,854 **6.21%**	-71,498 **5.80%**	-67,321 **5.40%**
(+) Other operating income	8,656 **0.59%**	9,487 **0.65%**	3,985 **0.33%**	15,715 **1.23%**	11,634 **0.86%**	26 **0.00%**	156 **0.01%**	5 **0.00%**
(-) Personnel expenses	-465,375 **31.87%**	-464,922 **31.84%**	-425,071 **35.14%**	-425,757 **33.21%**	-441,452 **32.80%**	-433,714 **33.72%**	-387,229 **31.43%**	-373,793 **29.98%**
(-) Other operating expenses	-637,697 **43.67%**	-650,229 **44.53%**	-617,880 **51.08%**	-656,402 **51.20%**	-698,862 **51.92%**	-813,795 **63.28%**	-697,207 **56.58%**	-706,668 **56.67%**
(-) Allocation for depreciation	-109,453 **7.50%**	-124,172 **8.50%**	-124,810 **10.32%**	-123,683 **9.65%**	-119,887 **8.91%**	-110,463 **8.59%**	-101,322 **8.22%**	-98,516 **7.90%**
(+/-) Impairment and disposal of assets	25,453 **1.74%**	22,349 **1.53%**	-37,158 **3.07%**	-98 **0.01%**	26,536 **1.97%**	-143,517 **11.16%**	30,223 **2.45%**	13,177 **1.06%**
= OPERATING INCOME	**170,831**	**124,685**	**-81,313**	**9,155**	**58,112**	**-293,557**	**6,633**	**17,132**
(+) Financial income	9,769 **0.67%**	8,617 **0.59%**	9,770 **0.81%**	5,111 **0.40%**	5,720 **0.42%**	3,779 **0.29%**	4,099 **0.33%**	7,368 **0.59%**
(-) Financial expenses	-65,456 **4.48%**	-77,860 **5.33%**	-57,698 **4.77%**	-61,902 **4.83%**	-68,646 **5.10%**	-85,019 **6.61%**	-76,346 **6.20%**	-68,829 **5.52%**
= FINANCIAL INCOME	**-60,350**	**-113,615**	**-47,487**	**-60,258**	**-49,826**	**-93,807**	**-29,368**	**-42,129**
(+/-) Corporation tax	-8,495	-3,730	20,270	5,109	6,200	55,501	-9,122	-15,611
= PROFIT (LOSS) FOR THE YEAR	**99,507**	**5,050**	**-115,110**	**-47,444**	**10,501**	**-336,095**	**-40,047**	**-10,440**

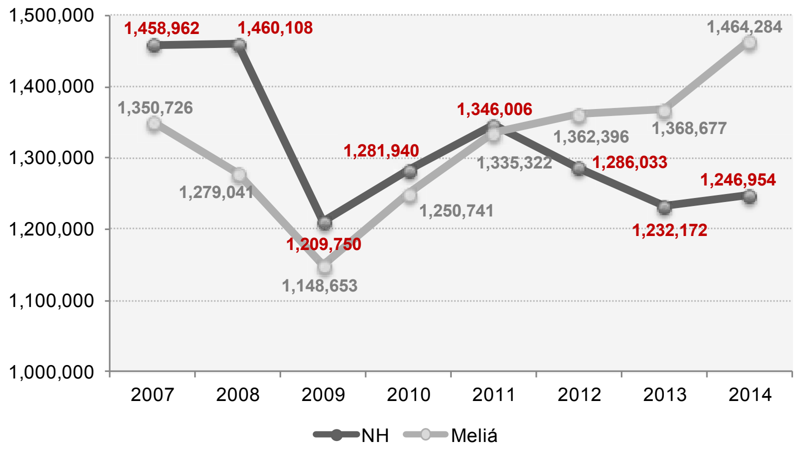
(Source: Own elaboration with data from the CNMV and NH consolidated financial statements)

3.2.1 Net turnover

Starting with the operating revenues of NH, they consist primarily of the revenue from its hotel rooms along with other sources of additional operating income such as the revenue from its restaurants and other catering services, the rental of meeting rooms and real estate sales which the company had until 2014, year in which Sotogrande S.A. was sold.

From the very beginning, the company based its sales strategy on increasing its net turnover by expanding its hotel portfolio. Thereby, through a large expansion, NH achieved from 2007 to 2011 a net turnover figure slightly higher than its competitor Meliá, as it is illustrated in Figure 3.9.

Figure 3.9 Evolution of net turnover of NH and Meliá, 2007-2014 (€ thousand)



(Source: Own elaboration with data from the CNMV NH and Meliá consolidated financial statements)

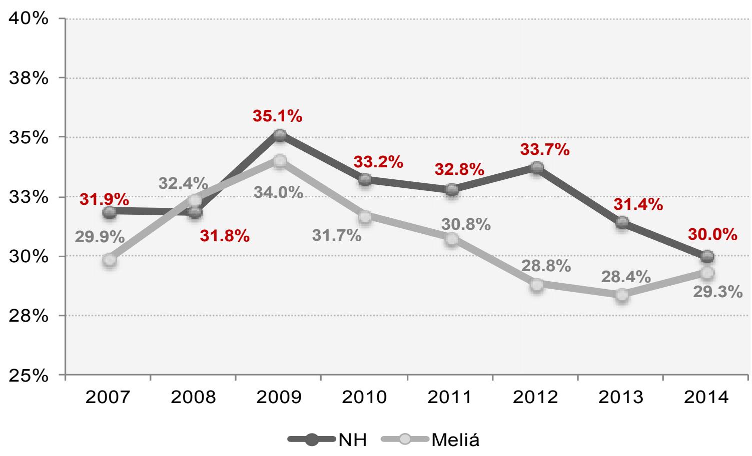
However, the effects of the economic crisis forced the company to slow down its expansion plans and even sell some of its hotels, as it was already mentioned above. Unsurprisingly, this situation led to a significant drop in sales from which the company still has not recovered and hence nowadays, despite the fact that NH still has high turnover figures around 1,200 million euros, the leading position in the Spanish hotel industry regarding net turnover is currently held by its competitor Meliá.

3.2.2 Personnel expenses

Personnel costs are one of the largest expenses that a company that operates in the hotel industry has to face given the large volume of employees needed to maintain the proper functioning of a hotel, making these expenses be seen as fixed costs and rather inflexible.

As the graph displays, personnel expenses of NH have remained stable at around 30% of its sales, showing Meliá a very similar trend, although the relative weight of personnel expenses is higher in NH than in Meliá.

Figure 3.10 Evolution of personnel expenses of NH and Meliá as a percentage of net turnover, 2007-2014 (%)



(Source: Own elaboration with data from the CNMV NH and Meliá consolidated financial statements)

However, despite this fixed cost structure, the recessionary period forced a change in the management of human resources in order to make them more flexible and adapt the workforce of the company to the current occupancy levels. Consequently, in 2011 and 2012 NH started to announce the dismissal employees and thus personnel expenses increased significantly because of the additional costs of redundancy payments that are depicted in the table below. Additionally, the reduction in the average number of employees is also due to a strategic decision made by the group that consists on tailoring the level of employment to the level of activity, again primarily in Spain and Italy, and accordingly NH has decided to make use of a higher volume of services provided by external companies in order to adapt its workforce to the specific demand of the moment.

Table 3.5 Average people employed in NH and Meliá and indemnifications (€ thousand), 2007-2014

	2007	2008	2009	2010	2011	2012	2013	2014
People employed	15,158	15,174	13,907	14,711	14,689	13,795	13,144	12,709
Indemnifications	5,541	8,758	4,414	5,638	18,263	25,266	5,838	9,043

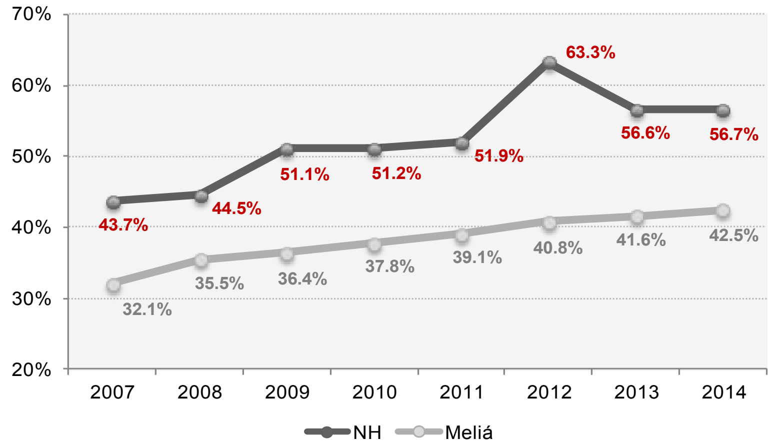
(Source: Own elaboration with data from NH Hotel Group consolidated financial statements)

Fortunately, thanks to these tough decisions, NH has managed to reduce the percentage of staff expenditure over net turnover in 2013 and 2014 in spite of having higher occupancy rates, spending on 2014 around 374 million euros, the lowest figure during the entire period. However, taking a closer look, it must be stated that even though in both companies these expenditures accounted for 30% of net turnover in NH and 29.32% in Meliá during 2014, nearly identical rates, this outcome is more favourable for Meliá since net turnover in NH has increased by just 1.2% whilst in Meliá 6.9%.

3.2.3 Other operating expenses

Along with personnel expenses, this heading has the greatest weight in the total operating expenses of NH and is primarily composed of lease rentals, external services and provisions for risks and expenses.

Figure 3.11 Evolution of other operating expenses of NH and Meliá as a percentage of net turnover, 2007-2014 (%)



(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

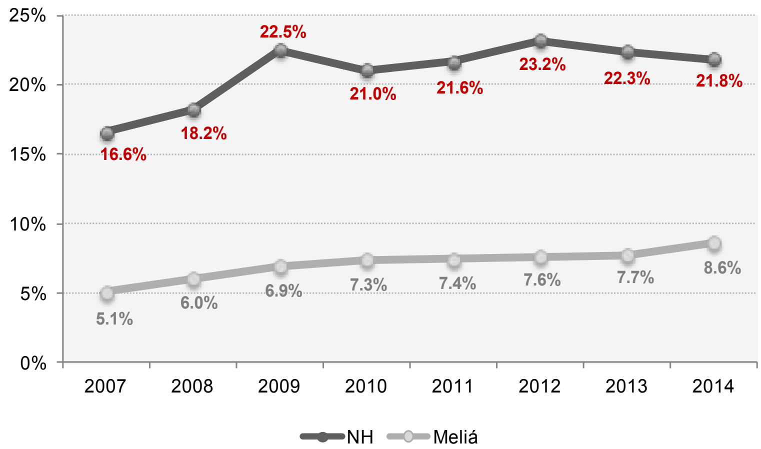
The graph shows in greater detail the percentages for each year, depicting a rising trend in both chains, with an average spending in the eight years of study of 52.37% for NH, compared with 38.22% in Meliá. This large difference is due to the fact that Meliá spending on rentals is much lower and the company does not outsource as many services as NH does.

Breaking down this expense in NH, the biggest expenditure is external services, which most likely includes payments to the staff and services provided by external companies, as it has been explained in the preceding section, and expenditures such as transport, maintenance and repairs, or advertising, but in which only appears broken down the fees for auditing and other services provided by the auditor of the group's consolidated annual accounts, Deloitte. Lease rentals are next with also a significant weight, therefore making it interesting to briefly analyse the evolution of this spending.

3.2.4 Leases

It is common practice in the hotel sector to rent the establishments to carry out the activity. In particular, NH makes extensive use of leasing, which translates in a high percentage of sales, with an average for the eight-year period of 20.91% as compared to 7.09% of Meliá. Thus, as an illustrative example, during 2014 NH had 54% of its hotels on a rental basis, compared with 32% who came to register its competitor.

Figure 3.12 Evolution of lease rental of NH and Meliá as a percentage of net turnover, 2007-2014 (%)



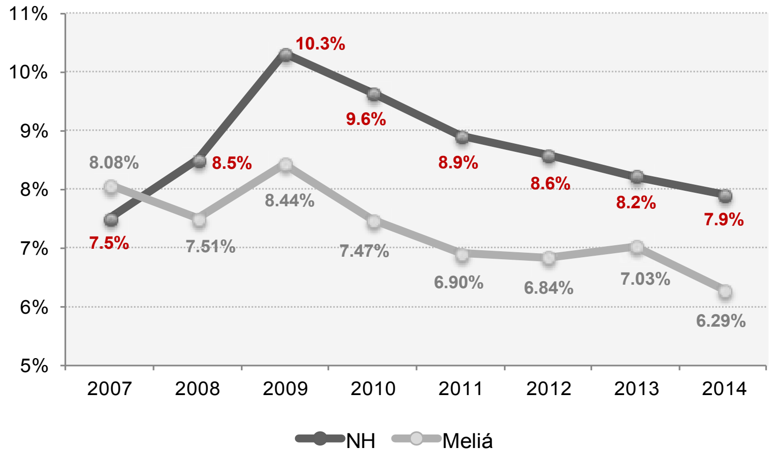
(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

However, since 2013, but especially in 2014, NH has managed to reduce rental costs back to the levels of 2009, hovering around 270 million euros, by renegotiating contracts, primarily in Spain and Italy, by abandoning those contracts that had negative contribution, and by offsetting the increases resulting from the negotiations of previous years as well as consumer price index revisions. Therefore, as a result of these measures, NH was able to reduce in 2014 its total lease expenses by 2.1%, resulting in annual savings of 10.7 million euros.

3.2.5 Depreciations

Depreciations in NH have been fairly steady, representing on average 8.6% of NH's net turnover, this is, 8 cents per euro of sales. There was a growing trend from 2007 to 2009, years in which the company owned more hotels, but from that year onwards the trend has been downward, depreciating in 2014 98 million euros, 10% less than in 2007.

Figure 3.13 Evolution of depreciations of NH and Meliá as a percentage of net turnover, 2007-2014 (%)



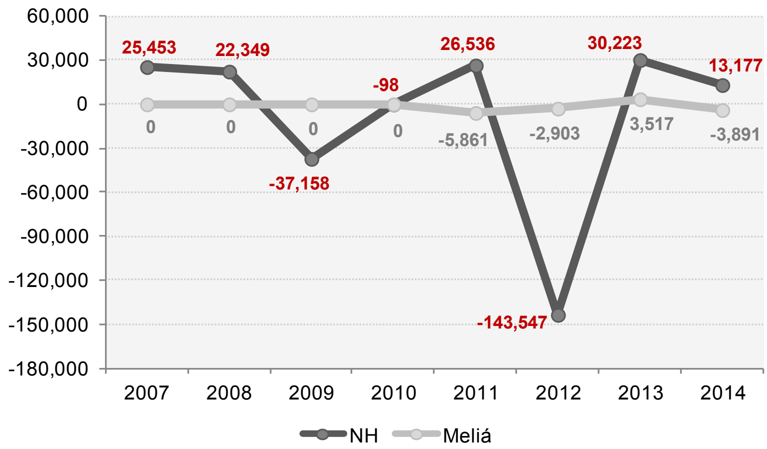
(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Again, the percentage of depreciation over sales is significantly higher in NH than in Meliá and, since the amortisation terms are similar in both companies, the difference comes from net turnover, which may be explained by a lower level of occupancy and/or NH obtaining lower prices for its rooms than its competitor Meliá. For instance, whilst in 2014, and thanks to the positive trend shown by the hotel business throughout the year and the effect of the initiatives of its Strategic Plan, NH experienced a 1.7% increase in its average room price and a 3.6% increase in its RevPAR, these increases pale in comparison to the 9.1% growth of the average room price and the 12.5% growth of the RevPAR in Meliá. Therefore, since no precise information is broken down in terms of the overall level of occupancy of the companies, given the foregoing data the difference between depreciations in both companies as a percentage of net turnover is at least partially motivated by room price.

3.2.6 Impairment and disposal of fixed assets

As already explained in the chapter of accounting quality, during the economic recession in 2012 NH tested the recoverable value of its hotels in Spain and Italy, its core business activity, and the company was forced to register a net loss from asset impairment of 143 million euros, so that the group ended 2012 with a consolidated net loss for the period of 337 million euros. This demonstrates that NH could have conducted a big bath strategy in 2012, as the company would not have had such a negative operating profit in that year if asset impairment had not gone from an operating income weighting 2% of net turnover in 2011, to an operating expense weighting 11.2% in 2012.

Figure 3.14 Evolution of impairment and disposal of fixed assets of NH and Meliá, 2007-2014 (€ thousand)



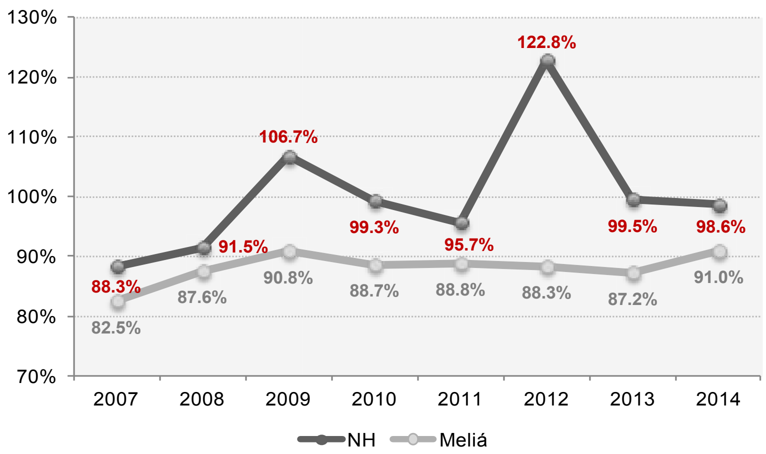
(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Besides, during 2014 and 2013 there have been no impairment losses on tangible assets of significant amounts, which prove that by incurring the entire loss in 2012, in 2013 and 2014 NH obtained a gain from some of the former impairment losses which were reversed and from the disposal of fixed assets, making the losses for these periods much lower in comparison to what was expected.

3.2.7 Total operating expenses

Recapitulating all these operating expenses, the differences between NH and Meliá discussed above give rise to a much larger difference when measured together.

Figure 3.15 Evolution of total operating expenses of NH and Meliá as a percentage of net turnover, 2007-2014 (%)



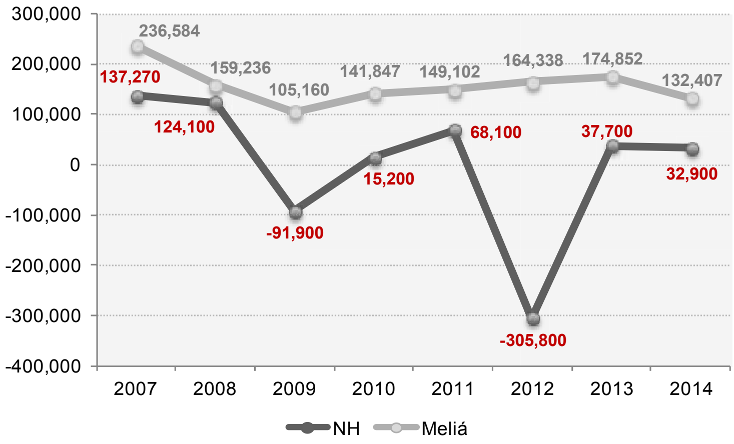
(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

As a result, it can be stated that NH had very high but reasonable operating expenses until 2008, but that from that year onwards the international crisis made them rise very sharply, and consequently ended with percentages of its total operating expenses over net turnover above 100% in 2009 and 2012, incurring hence in operating losses.

3.2.8 EBIT

Finally, to end this section it is interesting to study the evolution of the earnings before interest and taxes or EBIT of NH, an indicator of a company's profitability that does not take into account financial costs and taxes. Hence, EBIT is the best operational reflection of the company inasmuch as the financial results of NH provide negative data caused mainly by the amount of its financial expenses: these represent on average 5.36% of its net turnover, although its weight is lower than the financial expenses in Meliá, which represent a 6.93% of its net turnover.

Figure 3.16 Evolution of EBIT of NH and Meliá, 2007-2014 (€ thousand)



(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

As already mentioned above, and partly because of the harshness with which the economic crisis hit this sector, NH underwent operating losses in 2009 and 2012, worth 91.9 and 305.8 million euros respectively. However, it is necessary to mention again that NH would not have had such a negative EBIT in 2012 if asset impairment had not experienced an increase of 15% over the previous year. On the contrary, its rival Meliá managed to recover and adapt itself more quickly to the new situation and demands of the sector, and therefore obtained good and quite linear results in the years studied, with an average EBIT of 158 million euros.

It is interesting to note that the years with the best positive EBIT in NH, 2007, 2008 and 2011, coincide with the years that the company obtained considerable gains from the sale of non-current assets, this is, had the company not sold these assets, results would be much lower.

Table 3.6 Comparison of the results of NH without taking into account net gains on the disposal of non-current assets (€ thousand)

	Operating income	Net gains on the disposal of non-current assets	Operating income - financial income	Operating income - financial income without net gains on the disposal of non-current assets
2007	170,831	25,730	110,481	84,751
2008	124,685	54,409	11,070	-43,339
2009	-81,313	-326	-128,800	-128,474
2010	9,155	2,142	-51,103	-53,245
2011	58,112	33,905	8,286	-25,619
2012	-293,557	-2,357	-387,364	-385,007
2013	6,633	2,120	-22,735	-24,855
2014	17,132	-1,005	-24,997	-23,992

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

For instance, as it is shown in Table 3.6, if NH had not sold assets amounting to 54 and 34 million euros in 2008 and 2011 respectively, the company would have incurred losses.

In 2013 and 2014 NH has presented its financial statements with a significant improvement in them, mainly influenced by the new financial structure achieved. During these two years the most important actions have been focused on reducing operating expenses, mainly personnel costs and leases because of its large volume, as outlined above. Thus, NH has managed to move away from the extremely poor operating results achieved in 2009 and 2012 and, together with the business improvement that has taken place thanks to the increased profitability of its rooms, with higher prices after the reforms that have been carried out in accordance with the Strategic Plan, has started to generate positive EBIT.

3.3 Financial analysis

Questions about NH's profitability and risk cannot be easily answered from just the raw information of its financial statements, and therefore this section provides a series of financial ratios that give a broader view of the business situation of the company.

This ratios can be divided into three groups: liquidity and efficiency ratios, solvency ratios and profitabilty ratios. While liquidity and solvency ratios offer a clearer picture of the financial situation of NH, profitabilty ratios provide more information on the economic structure of the company. The analysis performs both a time series analysis as it examines changes in several ratios over the eight-year period, and a cross-section analysis which involves comparing NH's ratios with those of its competitor Meliá.

3.3.1 Liquidity and efficiency

This heading covers liquidity and efficiency ratios, particularly, the current ratio, the acid-test ratio, and the accounts receivable and accounts payable turnover ratios.

The amount of current assets less current liabilities is called working capital and generally companies with a negative working capital as NH, that with the exception of

2014 had a negative working capital during the rest of the period, can sometimes have problems meeting its current obligations. Nevertheless, the situation is not as alarming in the case of NH for two reasons: firstly, companies with low amounts of inventory, high receivables turnover and low accounts payable turnover, as it is the case of NH and that will be explained below, might be able to meet their obligations in spite of having a negative working capital and secondly, because large companies can have a consistent negative working capital since they have the muscle power and can demand longer credit periods from their fragmented suppliers and creditors.

However, when evaluating a company's working capital, it is more important to look at its ratio, as it is more indicative of the financial position of the firm that the mere comparison between absolute values of the working capital. Hence, the current ratio measures short-term debt-paying ability by comparing the company's current assets to its current liabilities and consequently states whether or not a firm has enough resources to pay its debt over the next business cycle.

Table 3.7 Current ratio of NH and Meliá, 2007-2014

Current Ratio		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{\textit{Current Assets}}{\textit{Current Liabilities}}$	*NH*	0.72	0.72	0.79	0.56	0.36	0.28	0.94	1.15
	Meliá	0.75	0.79	1.07	1.00	1.10	0.87	1.02	1.07

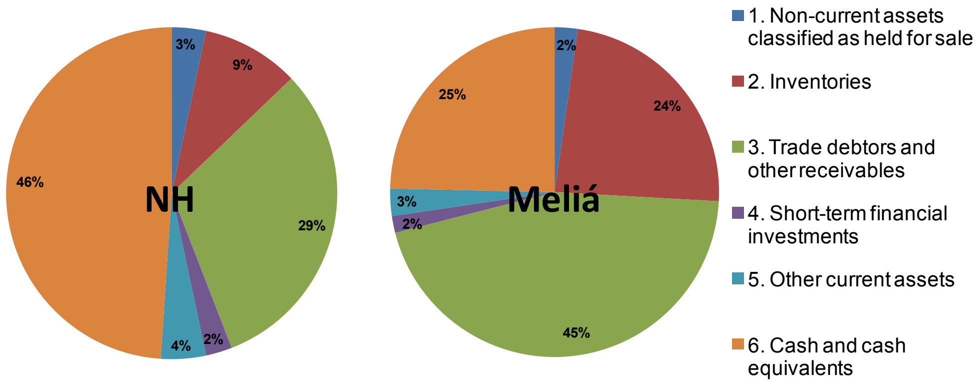
(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Throughout almost the entire period NH's current ratio was below one, meaning that its current liabilities exceeded its current assets. Although between 2007 and 2009 the company had quite acceptable levels of liquidity, during 2012 NH could only cope with 36% of its shot-term liabilities with its current assets, as can be seen in Table 3.7.

More specifically, between 2010 and 2012 the company has a very small ratio, and only in 2014, after the disposal of low-profitability hotels, the sale of assets and renegotiations, the company has obtained a positive working capital. With all these actions NH aimed to obtain immediate liquidity, as the situation in which the group was immersed was not sustainable in the long-term, to such an extent that the company was more focused on liquidating its debts than in the hotel business itself. Conversely, the financial position of Meliá Hotels in the short-term has been much more favourable, with rates not lower than 0.75, and in which 5 of the 8 years being studied its current assets have outweighed its current liabilities.

Going further, it could be analysed what comprises the numerator of this ratio as, for instance, it is not the same if it is materialised in inventories that in temporary financial investments, since the latter are more liquid. After computing an average of the 8 years that comprise the entire period it can be seen that Meliá's current assets are much more liquid, since 51% of its current assets are cash and cash equivalents, whilst cash accounts for only 25% of NH's current assets. Additionally, inventories and trade debtors are less liquid than cash and cash equivalents and 24% of NH's current assets are inventories because, as explained above, the company could classify land as inventory until 2014 because of its real estate activities, and 45% of them are trade debtors, which have a greater weight than Meliá's because, besides having trade receivables for services provided the company also had trade receivables for real-estate product sales, whilst these balance sheet items account for only 9% and 29% of Meliá's current assets, respectively.

Figure 3.17 Breakdown of current assets for NH and Meliá, 2007-2014 (%)



(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

As a conclusion for the current ratio it could be stated that NH's results are poor inasmuch as the hotel industry is a cyclical industry and hence companies operating in this sector should always have enough current assets to cover current liabilities, even in an economic downturn.

The acid-test ratio is also an indicator of a company's immediate short-term debt-paying ability but measures whether the firm has sufficient short-term assets to cover its immediate liabilities in a more conservative manner than the current ratio, being that it excludes inventories from current assets as these generally take some time to be converted into cash.

Table 3.8 Acid-test ratio of NH and Meliá, 2007-2014

Acid-Test Ratio		2007	2008	2009	2010	2011	2012	2013	2014
Cash + ST Investments + Current Receivables	NH	0.52	0.46	0.62	0.43	0.26	0.26	0.75	0.92
Current Liabilities	Meliá	0.71	0.73	0.96	0.89	0.99	0.79	0.84	0.83

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

NH’s acid-test ratio lower than one throughout the entire period demonstrates again how the company had few liquid assets to pay its current liabilities. Again, NH had a particularly low ratio between 2007 and 2012 but, during 2013 and 2014, and although the ratio is still far from being ideal, the company has managed to greatly improve its liquidity position. Thus, NH must strive to improve these results insomuch as Meliá’s acid-test ratio, despite never exceeding one during the entire period, has been much higher and consistent.

Weakness of both the current ratio and the acid-test ratio is that they both show NH’s liquidity on one date in the year only (Sutton, 2004) and that these ratios measure quantity, but not quality. This is the reason why it is interesting to look at turnover ratios with the aim of obtaining a more dynamic picture of the short-term liquidity and efficiency of the company. The inventory turnover ratio, that is calculated by dividing the cost of goods sold between the average inventory is not going to be computed as it is not suitable for this sector: it measures how long a company holds inventory before selling it and therefore does not provide any information for the hotel industry, as the main activity of these business is not selling stocks. However, calculating both the accounts receivable and accounts payable turnover is very useful.

The accounts receivable turnover ratio measures how many times a business can turn its accounts receivable into cash during the year and thereby shows how efficient the company is at collecting its credit sales from customers.

Table 3.9 Receivables turnover ratio of NH and Meliá, 2007-2014

Accounts Receivable Turnover		2007	2008	2009	2010	2011	2012	2013	2014
Net Sales	NH	8.83	9.97	9.76	10.37	10.83	10.76	10.39	9.77
Average Trade Receivables	Meliá	14.00	14.02	10.50	9.31	8.29	8.62	10.10	11.25
Days' Sales Uncollected		**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Average Trade Receivables x365	NH	41	32	36	36	33	33	35	40
Net Sales	Meliá	23	28	39	43	48	38	35	32

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

It can be observed that NH presents a fairly high ratio, in line with Meliá's, that indicates that the firm was frequently collecting throughout the year its trade receivables for services provided, positively affecting this its liquidity position as NH was rapidly converting its receivables into cash. This is very favourable as if NH can collect cash from customers sooner, the firm will be able to use that cash to pay bills and other obligations sooner and thus compensates somehow the poor results obtained in both the current ratio and the acid-test ratio. Additionally, the ratio can also be an indicator of the quality of receivables; NH's high ratio proves that its credit sales are more likely to be collected than those of a company with a lower ratio and, since accounts receivable are often posted as collateral for loans, the quality of these receivables is extremely important.

The days' sales uncollected ratio or days outstanding for receivables provides the same information as the accounts receivable turnover ratio but expresses it in terms of the average number of days that elapse between the time the company makes the sale and the time it later collects the cash (Stickney *et al.*, 2010). Again, this ratio proves that NH's collection activities were adequate as, even during the years of the widespread economic downturn, which likely impacted the ability of its customers to pay, NH managed to collect its short-term receivables in an average of 36 days.

Lastly, the accounts payable turnover ratio shows how many times per period the company pays its average payable amount.

Table 3.10 Payables turnover ratio of NH and Meliá, 2007-2014

Accounts Payable Turnover		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{\text{Supplies + External Services}}{\text{Average Trade Payables}}$	NH	2.45	2.50	2.04	2.12	2.24	2.05	2.22	2.51
	Meliá	4.70	14.94	14.18	15.08	5.44	3.38	3.29	3.48
Creditor Days		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{\text{Average Trade Payables}}{\text{Supplies + External Services}} \times 365$	NH	149	146	179	172	163	178	165	146
	Meliá	78	24	26	24	67	108	111	105

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Once calculated the accounts receivable turnover and the accounts payable turnover ratios of NH and thus comparing the days to collect the accounts receivable with the days to pay suppliers, it can be observed that overall NH has a good ability to pay its trade receivables in the short-term: on average, the company collects its accounts receivables in 36 days and pays its debts with suppliers in 162 days, so that the company can manage to meet its payments even if its working capital is small.

3.3.2 Solvency

Investors measure a business' financial leverage in various ways, but the most commonly used approaches are to relate net debt to shareholders' equity by using the debt-to-equity ratio, to calculate the structure of the debt of the company, and to compute the times interest earned ratio.

The debt-to-equity ratio is a solvency ratio that measures a business's financial leverage by dividing its total liabilities by its shareholders' equity.

Table 3.11 Debt-to-equity ratio of NH and Meliá, 2007-2014

Debt-to-Equity Ratio		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	NH	1.48	1.55	1.54	1.43	1.29	1.83	1.33	1.34
	Meliá	1.79	2.15	1.97	2.04	1.98	1.94	1.93	1.54

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

The ratio reflects that NH's capital structure has had more debt than equity, indicating that more creditor financing has been used than investor financing, which increases risk because, even though the firm has to remunerate both equity capital, for instance, by paying dividends, as well as debt capital, by paying interests, the increased risk of debt arises because the firm has to pay interests and reimburse the principal of the loan even if it is incurring losses. Consequently, while the firm was able to suspend the payment of dividends to its shareholders during the economic crisis, debt requirements were a burdensome for NH when the industry and the economy experienced the recession, and as it was previously mentioned above when the financial structure of the company was analysed, during the economic downturn NH's debt matured because of the violation of debt covenants and consequently the company had to refinance a large part of the group's debt in order to avoid default. However, when compared to its competitor Meliá, NH has had every year throughout the period being analysed a lower debt-to-equity ratio that implies that, between both companies, NH is less dependent on debt than Meliá.

Nevertheless, both companies should strive to improve this situation as NH and Meliá were considered to be these past few years the business leveraging the largest amount of debt of all international hotel firms (Gómez, 2014).

It is also extremely important in the process of analysing the solvency position of a firm to highlight the term structure of its debt. Usually, it is better that the long-term debt ratio is greater than the short-term debt ratio, because the firm has more time to cope with these debts and obtain the necessary liquidity.

Table 3.12 Structure of the debt of NH and Meliá, 2007-2014

Short-Term Debt		2007	2008	2009	2010	2011	2012	2013	2014
Current Liabilities / Equity	*NH*	0.51	0.43	0.56	0.73	0.93	1.39	0.39	0.38
	Meliá	0.54	0.56	0.58	0.69	0.64	0.81	0.67	0.49
Long-Term Debt		**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Non-Current Liabilities / Equity	*NH*	1.21	1.35	1.13	0.85	0.48	0.58	1.00	0.87
	Meliá	1.11	1.32	1.23	1.21	1.16	0.97	0.97	0.75
Short-term Financial Debt		**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Short-term Financial Debt / Total Liabilities	*NH*	12.80%	9.76%	18.39%	26.04%	48.06%	49.33%	6.66%	4.97%
	Meliá	16.98%	17.53%	19.42%	22.66%	21.48%	31.45%	26.41%	21.62%

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

The evolution of the long-term debt ratio and the short-term debt ratio for NH is quite uneven in the period studied. During 2011 and 2012 its proportion of short-term debt was much higher than its long-term debt, something quite harmful for the company because, as it was stated when analysing its current ratio, NH had few current assets to cope with its short-term liabilities. Nevertheless, in 2013 the firm inverted its position and currently its long-term debt is much higher than its short-term debt, becoming its short-term debt rather small. The explanation behind this is that, as mentioned above, NH refinanced its debt and reclassified many of its short-term liabilities to long-term liabilities. With this shift, the company managed to improve its financial position and nowadays it is better positioned to cope with its debts both in the short-term and the long-term.

Lastly, it is also interesting to analyse for NH the short-term financial debt ratio, as it provides a measure of the proportion of short-term financial debt with respect to total liabilities. Short-term bank debts have a very high cost and must be repaid before, so when this proportion increases it could be an indicator that the firm is having problems to get long-term financing. This is precisely what it is observed in NH during the period 2010-2012, since due to the bad economic situation that the group was facing, the company had a large proportion of its financial debt in the sort-term because financial institutions had doubts regarding its future performance and its ability to repay its debts in the long run.

Unfortunately, balance sheet leverage ratios have the same flaw as balance sheet liquidity ratios, as they provide a snapshot of the firm's capital structure at one date only. Therefore, one solution can be to calculate the burden of debt on profits.

Table 3.13 Times interest earned ratio of NH and Meliá, 2007-2014

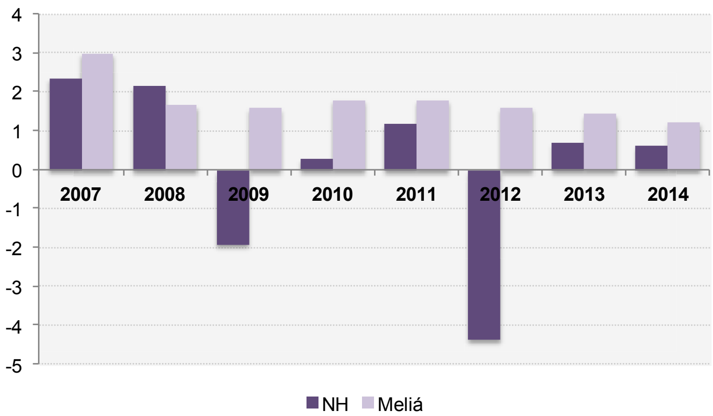
Times Interest Earned		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{EBIT}{Interest\ Expense}$	*NH*	2.35	2.15	-1.91	0.30	1.18	-4.36	0.69	0.62
	Meliá	3.00	1.66	1.59	1.80	1.79	1.60	1.44	1.24

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

The times interest earned ratio or interest coverage ratio reflects creditors' risk of loan repayments with interest and is calculated by taking a company's EBIT and dividing it by the total interest payable on contractual debt. This ratio attempts to indicate the relative protection that operating profitability provides creditors, permitting them to assess the probability that a firm will fail to meet required interest payments (Stickney et al., 2010), hence, the larger this ratio the less risky is the company for creditors, as failing to meet these obligations repeatedly could force a company into bankruptcy.

NH's decreased profit margins values coupled with higher interest expense result in decreasing interest coverage ratios during the period, and particularly in 2009, 2010 and 2012 the company obtained a financial coverage in negative values that implied that the firm was not able to deal with its financial expenses with the benefits obtained from its activity, suggesting that NH's lenders had a high risk of non-repayment.

Figure 3.18 Evolution of the times interest earned ratio of NH and Meliá, 2007-2014



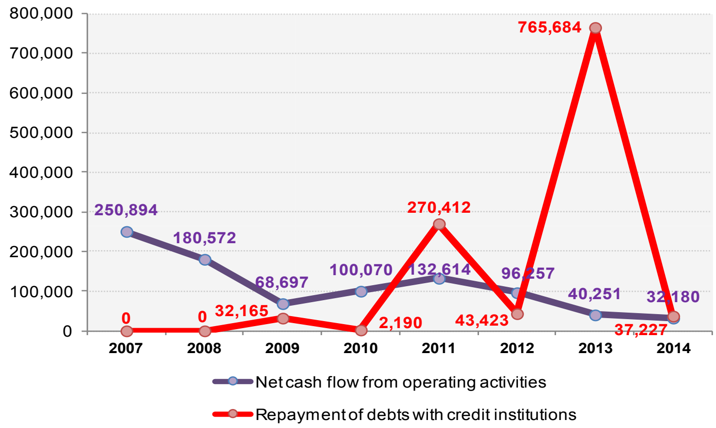
(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

In 2013 and 2014 the situation has improved but NH's EBIT continues to be only 0.6 times higher than its interest expense for the year. On the contrary, the position of

Meliá is more favourable as a ratio of 2 means that the firm makes enough income to pay for its interest expense two times over and proves that its results have been consistent with the debt financing of the company.

Nevertheless, the times interest earned ratio has a flaw as it uses income rather than cash flows in the numerator, and firms pay interests and other fixed payment obligations with cash, not income. Therefore, when the amount of the times interest earned ratio is low, as in this case, it is more convenient to use some measure of cash flows, such as cash flows from operations, in the numerator. Thus, the chart below compares NH's net cash flow from operating activities with the repayment of the principal of debts with credit institutions.

Figure 3.19 Comparison between net cash flow from operating activities and repayment of debts with credit institutions in NH, 2007-2014 (€ thousand)



(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

The graph shows how in six of the eight years of the period being studied, NH was able to repay the principal of its loans with the cash flows generated from its operations. However, as in 2011 and 2013 the cash flows from operating activities were not sufficient to repay the debts with credit institutions, the company was only able to face these repayments thanks to the very positive net cash flow from investment activities in 2011 and 2013, 104 and 46 million euros respectively, thanks to the cash receipts from sale of fixed assets.

3.3.3 Profitability

Finally, the profitability ratios that are going to be studied are the return on total assets and the two components that comprise it, the profit margin ratio and the total asset turnover ratio, as well as the return on shareholders' equity.

Table 3.14 Return on total assets of NH and Meliá, 2007-2014 (%)

Return on Total Assets		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{\text{Net Income}}{\text{Average Total Assets}}$	NH	3.30%	0.15%	-3.37%	-1.38%	0.33%	-11.39%	-1.45%	-0.39%
	Meliá	5.85%	4.27%	1.43%	1.59%	1.24%	1.23%	-2.15%	0.96%

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

The return on assets gives the result of multiplying the profit margin ratio and the total asset turnover ratio and shows how many cents of profit each euro of assets has generated in the financial year. This ratio is an indicator of the success with which managers have employed the firm's assets in a period, irrespective of how those assets are financed (Sutton, 2004), and hence quantifies the ability of the hotels that NH owns to generate income. The ROA has particular relevance to creditors and when these entities provide debt financing to a firm, they want to be sure that the firm can generate a ROA from using the financing that exceeds its costs (Stickney *et al.*, 2010).

NH's ROA was only good in 2007 when for each euro of assets the company used, NH earned 0.033 euros before payments to the providers of financing and became negative from 2009 onwards, obtaining the company again in 2012 extremely bad results. With an average return on total assets of -1.18%, it can be affirmed that asset management in NH has worsened over the period. It is true that this low level is partly due because NH operates in a very competitive and highly capital-intensive industry but, as its competitor Meliá has an average ROA of 1.80%, it could also be that NH's management team has been unable to make efficient use of its assets. Hence, and although in recent years NH has closed its unprofitable hotels, the company is not supporting its results in its owned hotels and has been operating largely thanks to the funding of its shareholders, and thus should focus a large part of its efforts on continuing to improve asset management in the near future.

The profit margin ratio reflects the company's ability to earn net income from sales. Notwithstanding, when evaluating a company's profit margin, it is mandatory to consider the industry in which it is operating, as in this particular case, the hospitality industry tends to have a rather low profit margin ratio.

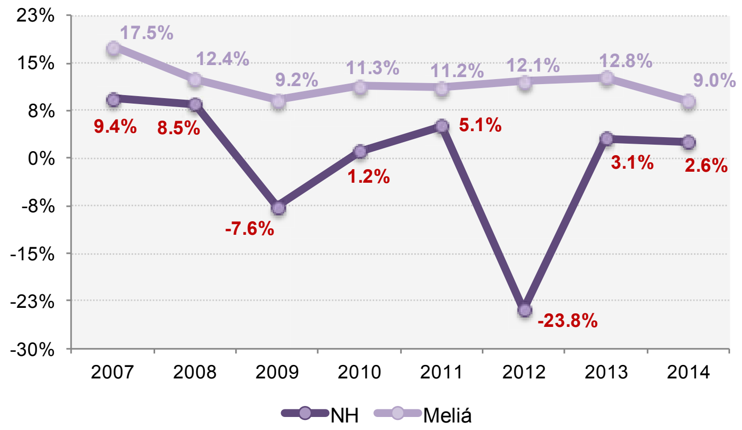
Table 3.15 Profit margin ratio of NH and Meliá, 2007-2014 (%)

Profit Margin Ratio		2007	2008	2009	2010	2011	2012	2013	2014
Net Income / *Net Sales*	*NH*	6.82%	0.35%	-9.52%	3.70%	0.78%	-26.13%	-3.25%	-0.84%
	Meliá	12.19%	4.27%	3.79%	4.16%	3.14%	3.09%	-5.39%	2.18%

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Despite the fact that NH offers more than just lodging, such as restaurant and spa services that increase its profitability, the firm only achieved good outcomes during 2007 and 2008, when the company was converting around 9% of its sales into profits. However, altough both companies have a very similar net turnover figure, NH is very far from reaching Meliá's average profit margin ratio of 11.94%.

Figure 3.20 Evolution of the profit margin ratio of NH and Meliá, 2007-2014 (%)



(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

It is a fact that hotels can improve their margins by raising its rates, and even though in 2013 and 2014 the company has not had yet a positive net income, NH is converting a percentage of these sales into profits thanks largely to the strategy to charge higher prices for its rooms. Nevertheless, as prices can only rise up to a certain limit and NH's net sales are already high and stable, in the long run the company should attempt to cut down costs, mainly staff costs and rents as they represent by far

NH's highest expenditure, with the aim of converting a higher percentage of its sales into profits.

The total asset turnover ratio is an indicator of the efficiency with which a company is deploying its assets in generating revenue. In general terms, the higher the asset turnover ratio, the better the firm is performing, since higher ratios imply that the company is generating more revenue per euro of assets.

Table 3.16 Total asset turnover of NH and Meliá, 2007-2014

Total Asset Turnover		2007	2008	2009	2010	2011	2012	2013	2014
$\frac{\text{Net Sales}}{\text{Average Total Assets}}$	NH	0.48	0.44	0.35	0.37	0.42	0.44	0.45	0.47
	Meliá	0.48	0.44	0.38	0.38	0.40	0.40	0.40	0.44

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Although the ratio is quite low for NH, when compared to the ratio of its competitor Meliá it can be seen that both companies exhibit a very similar trend. This is because firms in sectors like the hotel industry, which have large asset bases, do not tend to have a very high asset turnover. During the period 2007-2010 the evolution of the ratio for both companies was nearly identical, obtaining both firms their worst results during 2009 and 2010. Nevertheless, from 2011 onwards, the trend in the asset turnover ratio indicates that asset usage has been improving, being slightly better in the case of NH.

In this way, the main difference in profitability between NH and Meliá does not come from the total asset turnover ratio, which has a very similar trend in both companies, but is coming from the margin. The latter is much lower in NH as when the income statement of the company was analysed, it was observed that the proportion of other operating expenses over operating revenue, being external services the main item, was much higher for NH than for Meliá.

To conclude with the section, the return on equity ratio is also a profitability ratio that measures the ability of a firm to generate profits from shareholders investments in the company. ROE shows how many cents of profit each euro of shareholder's capital has yielded in the financial year and therefore is an indicator of the success with which managers have used owner's funds (Sutton, 2004).

Table 3.17 Return on common stockholders' equity of NH and Meliá, 2007-2014 (%)

Return on Common Stockholders' Equity		2007	2008	2009	2010	2011	2012	2013	2014
Net Income-Preferred Dividends	*NH*	8.39%	0.38%	-8.58%	-3.44%	0.77%	-28.68%	-3.72%	-0.91%
Average Common Stockholders'equity	*Meliá*	16.51%	5.58%	4.38%	4.79%	3.74%	3.64%	-6.30%	2.63%

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

The average yield offered to shareholders during the period was -4.47%, very far from Meliá's average ROE of 4.37%. During NH's best year, 2007, before the economic crisis erupted, shareholders saw an 8% return on their investment and NH benefited from a very acceptable level of financial profitability. However, from 2008 onwards the yield offered to its shareholders fell sharply as a result of the economic crisis, which means that NH has inefficiently used its shareholders' money to generate net income; as equity remained more or less stable, the sharp decline in this ratio has been due to the drop in net profit. This figure can be a sign of poor management of the management team, as they were unable to provide an appropriate return to the money contributed by its shareholders.

More specifically, the hotel chain suspended dividend payments in 2009 because of its internal weaknesses that were exacerbated by the situation that was facing the market. But lastly, as a positive milestone is noteworthy that the new board of directors of the group has agreed to pay an interim dividend in 2016, one year ahead of the schedule previewed, inasmuch as the company expects to meet the targets that were set in its Strategic Plan in 2014.

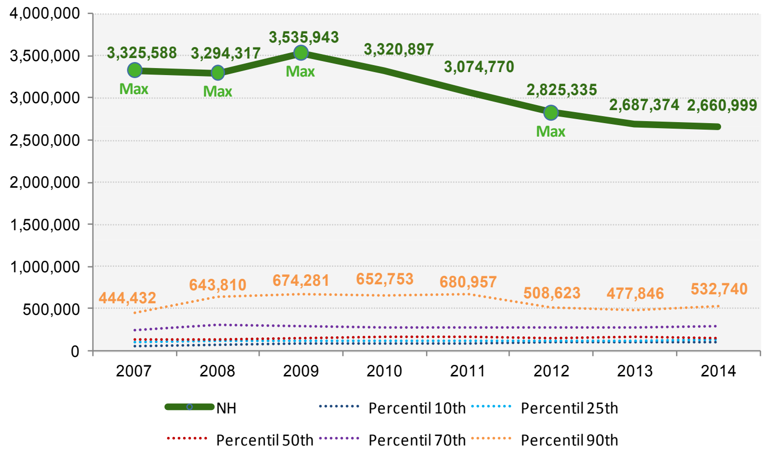
4 Comparison between NH and the Spanish companies in the sector

This last chapter briefly analyses NH's performance in relation to the other companies in the Spanish hotel sector in which it operates. For this purpose, the most important data of the balance sheet and income statement from 2007 to 2014 of the 50 largest companies in the sector were downloaded from the Spanish database SABI. Having obtained the data, the objective was to pay special attention to the amount of total assets, the value of net turnover and the return on assets (ROA) of the 50 companies, the latter disaggregated into its two components: the profit margin and the total asset turnover.

In order to simplify the study and to easily locate where NH is positioned within the sector regarding the amounts and ratios mentioned above, statistical techniques have been used for synthesising these data sets. Thus, it has been calculated the mean, the standard deviation, the maximum and minimum, and the 10^{th}, 25^{th}, 50^{th}, 75^{th} and 90^{th} percentiles of each of the aforementioned quantities and ratios and the results, which can be found in Annex 2, are going to be commented below.

To begin the discussion, with regard to the total amount of assets, NH was the largest company in the sector between 2007 and 2009 and in 2012, since its total assets coincide with the maximum levels that the sector came to reach in those years. However, and primarily due to the disinvestment strategy of the least profitable hotels of NH, the remaining years it has been its competitor Meliá the one that has obtained the leading position in the sector in terms of size. Besides, it can also be observed that there is a large disparity in size between the largest companies and the rest of them because, as evidenced by the 90^{th} percentile, only 5 of these 50 companies had a figure of total assets of more than 577 million euros during the period and additionally, the standard deviation shows that the deviation of the total assets figure of the different companies with respect to the arithmetic mean is of 500 million euros.

Figure 4.1 Evolution of total assets of NH and the hotel sector in Spain, 2007-2014 (€ thousand)

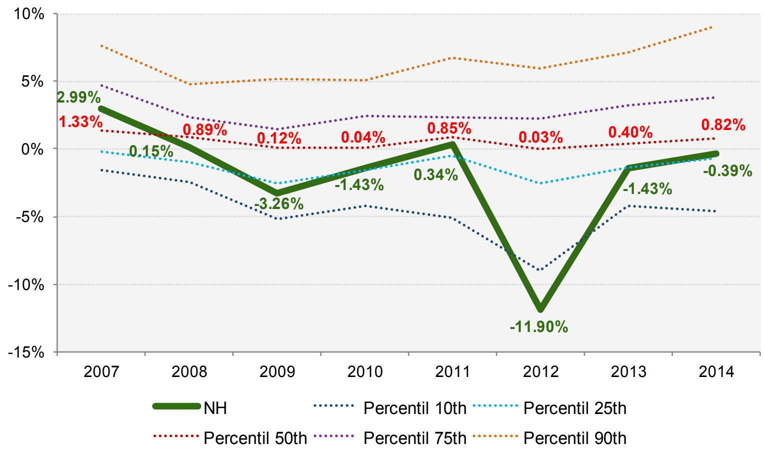


(Source: Own elaboration with data from the database SABI)

Regarding net turnover, NH obtained again the maximum values of all companies in the sector from 2007 to 2010 and in 2012, with values around 1,300 million euros. These results are even better considering that half of these companies obtained on average a net turnover of its hotel business over the period lower than 33 million euros.

With respect to the return on assets, with the exception of 2007, NH is below the median or 50th percentile, that is to say, more than half of these 50 companies in the sector have a higher profitability than the NH Hotel Group. Furthermore, the standard deviation shows that there is a great variability between companies considering that, while NH had an average ROA of -1.78%, the most profitable companies in the sector, such as Riusa II S.A., Hotusa Hoteles S.A. and Bay Hotels Canarias S.L., have had an average ROA of 20.16%, 11.21%, and 8.23%, respectively. In particular Riusa II S.A. obtained in 2014 a ROA of 15.79% and a net turnover figure of more than 744 million euros, mainly due to its strategy of continuous investment and internationalisation that enabled the firm to overcome the economic crisis in Spain.

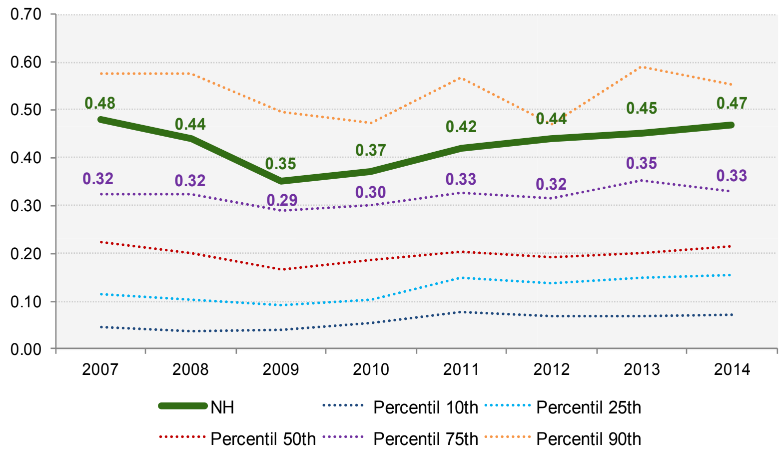
Figure 4.2 Evolution of the ROA of NH and the hotel sector in Spain, 2007-2014



(Source: Own elaboration with data from the database SABI)

If now the ROA is broken down in its two components, it can be seen that whilst NH's total asset turnover is among the top 25%, its profit margin ratio is again lower than the median and hence, its previously noted decrease in ROA results from a decrease in the profit margin, as its total asset turnover ratio remains steady.

Figure 4.3 Evolution of the total asset turnover ratio of NH and the hotel sector in Spain, 2007-2014

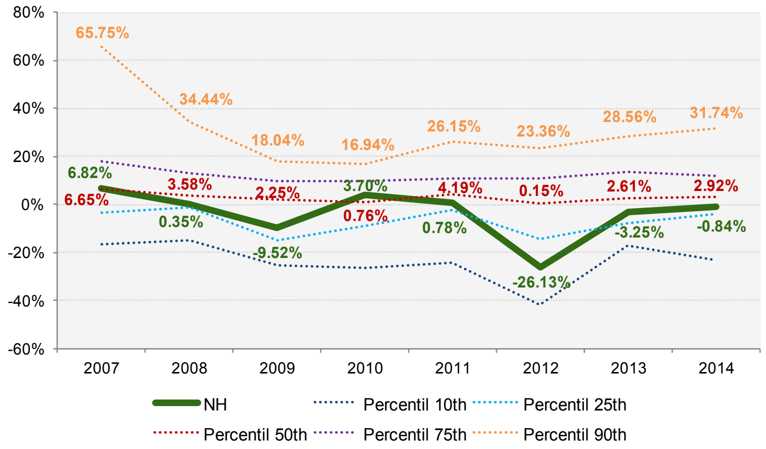


(Source: Own elaboration with data from the database SABI)

The possible reason that could explain this situation is that, as already discussed in Chapter 3, the company has always had a high percentage of its hotels on a rental basis. Accordingly, from the one hand these rented hotels do not account as assets but give rise to net sales, resulting in an improvement in the total asset turnover ratio;

whereas on the other hand rent expenses are part of the other operating expenses of NH and by reducing its net income the profit margin ratio worsens.

Figure 4.4 Evolution of the profit margin ratio of NH and the hotel sector in Spain, 2007-2014



(Source: Own elaboration with data from the database SABI)

With a ROA and a profit margin very far from the companies that have managed to adapt to the new economic adversities and market demands, NH should attempt to improve its ROA by increasing its profit margin, its total asset turnover, or both. However, NH's activities require substantial investments in property, plant and equipment and as the firm operates quite efficiently near its capacity, the company has limited ability to increase its ROA by increasing its total asset turnover and therefore should try to increase profit margin by creating brand loyalty and thus increase slightly the price of its rooms despite the high competitiveness of the hotel sector in Spain, while continuing to reduce its largest expenses, such as personnel costs and rentals, among others.

Conclusion

After having exhaustively analysed the importance of tourism in the Spanish economy and the economic and financial situation of one of the biggest companies in the hotel sector, NH Hotels, a number of findings can be drawn.

Tourism is considered one of the drivers of the economy in Spain, and among all sectors that conform the tourism industry, the hotel sector has great relevance because of its economic impact: the 500 largest hotel companies in Spain achieved a combined turnover of 20,856 million euros in 2014 (Alimarket, 2015) and direct employment generated by hotels amounted to 0.8% of the labour force (International Monetary Fund, 2016).

However, the sector has been affected by the proliferation of other types of alternative accommodations and the reduced consumption and travel spending of Spain's major emitting countries as well as its own domestic market as a result of the financial crisis that began in 2007. Thus, and despite additional challenges such as the high seasonality of the business and the oversupply of existing hotels, in 2014 the hotel sector has managed to get back to competitive standards, although the recovery has been greater for resort hotels, as urban hotels are more reliant on the still not restored Spanish domestic economy.

Being the emblematic and leading company of the urban hotel sector in Spain, NH Hotel Group was chosen to perform a thorough analysis of the economic and financial situation of the firm, in order to issue a founded opinion on its situation and performance on the sector.

Because of the great importance of a firm providing high quality accounting information in its financial statements in order to be useful to a wide range of users, at first the accounting quality of NH was assessed to see whether the company had manipulated its result through deceitful financial information. Surprisingly, evidence was found indicating how in 2012 the company could have undertaken a big bath, registering a net loss of asset impairment of 199 million euros, with the premise that the firm would not be punished proportionately more if the large losses of the period, of 66.9 million euros, became even larger, ending thus the year with a consolidated net loss of 337 million euros. This entails that the accounting information of the company for the years 2013 and 2014 should be carefully studied, given that the apparent recovery can be partially attributed to the overestimation of impairment losses in 2012.

With regard to the patrimonial analysis of NH, its economic structure reveals that non-current assets have always represented about 85% of its total assets, a typical composition of the assets of the hotel industry where real estate investments are very high. In this section the heading of property, plant and equipment represented on average 67.23% of total assets, but its trend showed a drop in its weight relative to total assets, primarily because of the strategic initiative of the company after the economic crisis that involved better asset management through the exit of the establishments that were reporting the lowest benefits. As a result, the value of these tangible assets was in 2014 32.68% lower than in 2007, a situation that has led to a significant drop in sales from which the company still has not recovered nowadays and thus, although NH had been the largest chain in the industry in terms of both size and net turnover, in 2013 and 2014 the firm has given up this position to its main competitor Meliá.

In relation to the financial structure, own resources are widely used as a source of funding, whereas its competitor Meliá has always been much more dependent on external resources for funding, granting NH greater financial autonomy than its competitors. Nevertheless, between 2011 and 2013 the company experienced sudden changes in the weight of both its short-term and long-term debt, given that in those years NH failed to meet debt covenants and debts matured as a result of this failure but, after renegotiating with its creditors, the group managed to fully refinance its debt and reclassify its short-term debt to long-term, achieving a delay in the repayment of these debts between three and five years.

Performing an economic analysis of the consolidated income statement of NH, personnel expenses and other operating expenses stand out as its major expenditures. With respect to the latter, the biggest expenses are external services that include, among others, payments to staff provided by external companies, and lease rentals. It is interesting to note that NH focused its strategy on leases as a form of exploitation of its hotels, but the passage of years showed that this strategy had not been successful because of the large fixed costs involved. Trying to reverse this situation, in 2014 NH has managed to reduce rental costs back to the levels of 2009 by renegotiating contracts, but despite these efforts in 2014 NH still had 54% of its hotels on a rental basis, compared with 32% who came to register Meliá.

With regard to EBIT, NH underwent operating losses in 2009 and 2012, but in 2013 and 2014, and mainly thanks to the new financial structure achieved, the company has started to generate again positive EBIT. Nonetheless, it is very important to highlight that that the years with the best positive EBIT, 2007, 2008 and 2011, coincide with the years that the company obtained considerable gains from the sale of non-current assets, this is, had the company not sold these assets, results would be much lower, and particularly in 2008 and 2011, the company would have incurred losses.

Finally, the financial analysis proved that NH has quite good liquidity ratios, given that its high receivables turnover and low payables turnover offset the small working capital of the company.

Regarding solvency ratios, one could note that while the firm could suspend payment of dividends to its shareholders during the economic crisis, its debt requirements were a burdensome for NH when the economy experienced the recession. Furthermore, the increase of its short-term financial debt ratio during the period 2010-2012 could be an indicator that the firm was having problems to obtain long-term financing, since due to the bad economic situation that the group was facing, banks had doubts regarding its future performance and its ability to repay its debts in the long run. Additionally, in six of the eight years of the period studied NH was able to repay the principal of its loans with the cash flows generated from its operations but, in 2011 and 2013, its cash flows from operating activities were not sufficient and the company was only able to face these repayments thanks to its very positive net cash flow from investment activities, that stemmed from the sale of fixed assets.

Finally, profitability is an issue for the firm as ROE evidences that the company has inefficiently used shareholders' money to generate net income and its ROA, with the exception of 2007, has been lower than the median of the sector. If the latter is broken down in its two components, it can be seen that whilst NH's total asset turnover was among the top 25% of the 50 largest companies in the sector, its profit margin ratio was again lower than the median and hence, the decreases in its ROA result from a decrease in the profit margin, as the total asset turnover ratio remains steady. The reason that could explain this situation is that NH has a high percentage of its hotels on a rental basis, which do not account as assets but give rise to net sales, resulting in an improvement in the total asset turnover ratio; whereas rental costs are part of the other operating expenses of NH and as these reduce its net income the profit margin ratio worsens.

The paper can end concluding that NH had been dragging problems that became visible during deep economic crisis, forcing the company to refinance its debt, sell establishments to obtain liquidity, contain its expenses and slow down its expansion program. Nowadays, the results of the company do not reflect the positive trend of the tourism industry in Spain, and despite the thorough restructuring that the company is undertaking and the positive evolution of its occupation levels and RevPAR, its future evolution is unclear, given that in the first quarter of 2016 the group has obtained an EBIT of -26.4 million euros as the firm has not managed to adjust its costs, its financial expenses have increased by 50% despite its debt refinancing, and its results continue to be affected by the lower number of rooms available.

Bibliography

Alimarket (2015). *Informe sobre el Sector Hotelero en España*. Recovered on 20 February 2016 at https://www.alimarket.es/informe/192081/informe-sobre-el-sector-hotelero-en-espana-2015

Bank of Spain (2016). Recovered on 5 February 2016 at http://www.bde.es/webbde/es/estadis/infoest/indeco.html

Dechow, P.M. and Skinner, D.J. (2000). Earnings management: Reconciling the views of accounting academics, practitioners, and regulators. *Accounting Horizons*, 14 (2), 235-250.

Domínguez, T., Fraiz, J.A. and Alén, M.E. (2011). Tourism and accessibility: A global visión about the situation of Spain. *Cuadernos de Turismo*, 28, 23-45.

El país (2013). BFA-Bankia inicia la venta de su participación del 12,6% en NH Hoteles. Recovered on 11 April at http://economia.elpais.com/economia/2013/11/22/actualidad/1385142440_286558.html

Exceltur (2015). Perspectivas turísticas: Valoración empresarial del año 2014 y perspectivas para 2015. Recovered on 3 February 2016 at http://www.exceltur.org/wp-content/uploads/2015/01/Informe-Perspectivas-N51-Balance-2014-y-perspectivas-2015-Definitivo-Web.pdf

Frontur (2016). Estadística de Movimientos Turísiticos. Recovered on 17 February 2016 at http://www.ine.es/daco/daco42/frontur/frontur1215.pdf

Gómez, A. and González, M.J. (2014). La evolución reciente del turismo no residente en España. *Boletín Económico, Banco de España*, 67-74.

Gómez, C. (2014). *El controvertido doble liderazgo de Meliá y NH*. Recovered on 18 April 2016 at http://economia.elpais.com/economia/2014/10/03/actualidad/1412328016_260682.html

Healy, P.M. and Wahlen, J.M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, 13 (4), 365-383.

Institute for Tourism Studies or ITE (2016). Recovered on 12 February 2016 at http://estadisticas.tourspain.es/es-ES/turismobase/Paginas/default.aspx

International Accounting Standards (2007). IAS 1 – Presentation of Financial Statements. Recovered on 20 February 2016 at http://www.iasplus.com/en/standards/ias/ias1

International Monetary Fund (2016). Recovered on 16 February 2016 at http://www.imf.org/en/Data

Jordan, C.E. and Clark, S.J. (2004). Big bath earnings management: The case of goodwill impairment under SFAS No. 142. *Journal of Applied Business Research*, 20(2), 63-69.

Levitt, A. (1998). The importance of high quality accounting standards. *Accounting Horizons*, 12(1), 79-82. Recovered on 18 March 2016 at http://search.proquest.com/openview/113ef6fb20852f7024ae491923c7e84c/1?pq-origsite=gscholar

Meliá Hotels International. (2016). *Informes anuales*. Recovered on February 2 2016 at http://www.meliahotelsinternational.com/es/accionistas-e-inversores/informacion-financiera/informes-anuales

National Stock Market Commission or CNMV (2016). Recovered on 28 January at http://www.cnmv.es/portal/home.aspx

NH Hotel Group. (2016). *Informe de auditoría, Cuentas anuales auditadas, Informe de gestión y Memoria anual*. Recovered on February 2 2016 at http://corporate.nh-hotels.com/es/accionistas-e-inversores/informacion-eco-fin/infor

Page, D. (2014). *La cara oculta del boom del turismo*. Recovered on 3 March 2016 at http://www.expansion.com/2014/03/04/empresas/transporte/1393935071.html

SABI Database (2016). Recovered on 4 April 2016 at https://sabi.bvdinfo.com/version-2016518/Search.QuickSearch.serv?_CID=1&context=4GJYC8IXC4XLJSJ

Spanish National Institute of Statistics or INE (2016). *Surveys and indexes of the Hospitality industry and tourism*. Recovered on 26 February 2016 at http://www.ine.es/inebmenu/mnu_hosteleria.htm

Stice, J.D. and Stice, E.K. (2014). *Intermediate accounting*. (19 ed.). USA: South-Western College Publishing.

Stickney, C.P., Weil, R.L., Schipper, K. and Francis, J. (2010). *Financial accounting. An introduction to concepts, methods, and uses.* (13 ed.) USA: South-Western Cengage Learning.

Sutton, T. (2004). *Corporate financial accounting and reporting*. (2 ed.). England: Financial Times Prentice Hall.

The Ostelea School of Tourism and Hospitality (2016). El sector hotelero en España 2015, macrocifras y evolución. Recovered on 3 February 2016 at https://marcsanso.files.wordpress.com/2015/06/ostelea_sector_hotelero_en_espanya_2015.pdf

Weetman, P. (2011). *Financial accounting, an introduction.* (5 ed). England: Pearson Education Limited.

Wild, J.J., Subramanyam, K.R. and Halsey, R.F. (2007). *Análisis de estados financieros*. (9 ed.). México: McGraw-Hill Interamericana.

World Tourism Organization (2015). *Tourism Highlights, 2015 Edition*. Recovered on 4 February 2016 at http://www.e-unwto.org/doi/pdf/10.18111/9789284416899

Annexes

Annex 1. Balance sheet and income statement of NH in detail

Table 1. Assets of NH, 2007-2014 (€ thousand)

(€ Thousands)	2007	2008	2009	2010	2011	2012	2013	2014
A) NON-CURRENT ASSETS	**2,901,694**	**2,943,193**	**2,972,399**	**2,811,701**	**2,664,530**	**2,461,982**	**2,280,912**	**2,129,358**
1. Intangible assets	235,056	244,712	244,502	236,333	227,543	193,906	169,837	172,765
a) Goodwill	118,748	122,205	121,134	120,408	119,968	101,814	97,221	93,923
b) Other intangible assets	116,308	122,507	123,368	115,925	107,575	92,092	72,616	78,842
2. Property, plant and equipment	2,397,647	2,402,489	2,386,093	2,199,307	2,108,812	1,869,183	1,714,980	1,606,360
3. Real estate investment	5,483	5,983	5,671	7,864	6,775	6,405	957	
4. Investments using the equity method	76,812	74,637	70,753	69,992	73,727	70,239	84,179	17,816
5. Non-current financial investments	140,811	156,148	158,809	177,051	111,409	110,369	111,599	163,474
6. Deferred tax assets	44,646	53,053	105,290	119,574	134,936	211,184	198,782	157,858
7. Other non-current assets	1,239	6,171	1,281	1,580	1,328	696	578	11,085
B) CURRENT ASSETS	**419,002**	**351,124**	**565,671**	**509,196**	**412,959**	**363,353**	**406,596**	**526,081**
1. Non-current assets held for sale								95,193
2. Inventories	118,313	128,559	126,037	118,973	116,228	106,005	79,635	8,226
3. Trade debtors and other receivables	215,037	193,379	187,615	203,173	194,223	186,919	180,050	204,954
a) Trade receivables	164,972	127,998	119,817	127,394	121,191	117,943	119,195	136,012
b) Other receivables	44,796	61,108	59,921	72,139	68,677	63,706	58,209	57,874
c) Current tax assets	5,269	4,273	7,877	3,640	4,355	5,270	2,646	11,068
4. Short-term financial investments	16,391	7,448	14,217	94		14,850		2,787
5. Other current assets	7,562	4,706	16,217	13,839	11,365	14,134	13,042	14,818
6. Cash and cash equivalents	61,699	17,032	221,585	173,117	91,143	41,445	133,869	200,103
TOTAL ASSETS	**3,320,696**	**3,294,317**	**3,538,070**	**3,320,897**	**3,077,489**	**2,825,335**	**2,687,508**	**2,655,439**

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Table 2. Shareholders' equity and liabilities of NH, 2007-2014 (€ thousand)

(€ Thousands)	2007	2008	2009	2010	2011	2012	2013	2014
A) SHAREHOLDERS EQUITY	**1,339,810**	**1,291,102**	**1,390,924**	**1,368,817**	**1,343,797**	**999,833**	**1,153,471**	**1,136,668**
A.1) EQUITY	1,154,212	1,119,776	1,267,375	1,230,779	1,222,952	926,425	1,104,127	1,216,146
1. Share capital	295,941	295,941	493,235	493,235	493,235	493,235	616,544	700,544
2. Share premium	395,876	393,648	413,747	413,747	413,747	413,747	521,259	634,659
3. Reserves	407,761	441,422	458,593	365,463	321,653	323,143	18,771	-97,932
4. Minus: Treasury shares	-22,809	-38,027	-1,100	-370	-11,914	-11,590	-38,115	-38,805
5. Consolidated Profit/ (Loss) for the year	77,443	26,792	-97,100	-41,296	6,231	-292,110	-41,562	-9,550
6. Other equity instruments							27,230	27,230
A.2) ADJUSTMENTS	-29,136	-62,372	-85,705	-66,117	-83,805	-85,501	-103,657	-102,659
1. Equity valuation adjustments	420	-6,296	-9,931	-6,577	-376	-5,690		
2. Exchange differences	-29,556	-56,076	-75,774	-59,540	-83,429	-79,811	-103,657	-102,659
Equity attributable to Parent Company	1,125,076	1,057,404	1,181,670	1,164,662	1,139,147	840,924	1,000,470	1,113,487
A.3) MINORITY INTERESTS	214,734	233,698	209,254	204,155	204,650	158,909	153,001	23,181
B) NON-CURRENT LIABILITIES	**1,397,110**	**1,517,032**	**1,434,024**	**1,049,418**	**591,305**	**533,459**	**1,099,552**	**1,060,852**
1. Grants	15,424	14,335	10,964	10,751	21,195	19,718	18,086	3
2. Provisions for risks and charges	60,530	47,393	54,114	30,706	30,846	57,276	66,735	56,930
3. Non-current financial liabilities	1,044,458	1,189,798	1,109,740	750,613	293,003	222,459	798,999	808,295
a) Amounts owed to credit institutions	910,306	1,008,180	942,555	663,793	225,923	180,501	779,583	732,926
b) Other financial liabilities	134,152	181,618	167,185	86,820	67,080	41,958	19,416	75,369
4. Deferred tax liabilities	276,379	258,358	255,511	257,155	246,204	233,939	201,225	179,730
5. Other non-current liabilities	319	7,148	3,695	193	57	67	14,507	15,894
C) CURRENT LIABILITIES	**583,776**	**486,183**	**713,122**	**902,662**	**1,142,387**	**1,292,043**	**434,485**	**457,919**
1. Liabilities of non-current assets held for sale								56,075
2. Provisions for contingencies and charges	8,519	8,519	10,756	14,529	1,241	53,458	26,270	14,835
3. Current financial liabilities	253,606	195,597	394,809	508,363	833,137	900,583	102,192	75,484
a) Amounts owed to credit institutions	245,453	191,248	394,003	507,966	831,122	855,358	99,705	74,428
b) Obligations under finance leases	8,153	4,349	806	397	2,015	45,225	2,487	1,056
4. Trade creditors and other payables	263,379	234,410	270,723	257,514	271,350	303,848	267,083	271,521
a) Suppliers	235,552	208,246	234,469	226,879	235,678	260,732	229,588	231,427
b) Other creditors	27,827	26,164	36,254	30,635	35,672	43,116	30,181	24,569
c) Current tax liabilities							7,314	15,525
5. Other current liabilities	58,272	47,657	36,834	122,256	36,659	34,154	38,940	40,004
TOTAL LIABILITIES AND EQUITY	**3,320,696**	**3,294,317**	**3,538,070**	**3,320,897**	**3,077,489**	**2,825,335**	**2,687,508**	**2,655,439**

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Table 3. Income statement of NH, 2007-2014 (€ thousand)

(€ Thousands)	2007	2008	2009	2010	2011	2012	2013	2014
(+) Net turnover	1,458,962	1,460,108	1,209,750	1,281,940	1,346,006	1,286,033	1,232,172	1,246,954
(+) Work conducted by the company	1,215	1,325	963	784	12,000	764	711	3,294
(-) Purchases	-132,425	-129,476	-91,329	-83,559	-78,078	-79,854	-71,498	-67,321
(+) Other operating income	8,656	9,487	3,985	15,715	11,634	26	156	5
(-) Personnel expenses	-465,375	-464,922	-425,071	-425,757	-441,452	-433,714	-387,229	-373,793
(-) Other operating expenses	-637,697	-650,229	-617,880	-656,402	-698,862	-813,795	-697,207	-706,668
(-) Allocation for depreciation	-109,453	-124,172	-124,810	-123,683	-119,887	-110,463	-101,322	-98,516
(+) Subsidies for non-financial assets and others	119	215	237	215	215	963	627	-
(+/-) Impairment and disposal of fixed assets	25,453	22,349	-37,158	-98	26,536	-143,517	30,223	13,177
(+/-) Other results	21,376							
= OPERATING INCOME	**170,831**	**124,685**	**-81,313**	**9,155**	**58,112**	**-293,557**	**6,633**	**17,132**
(+) Financial income	9,769	8,617	9,770	5,111	5,720	3,779	4,099	7,368
(-) Financial expenses	-65,456	-77,860	-57,698	-61,902	-68,646	-85,019	-76,346	-68,829
(+/-) Change in fair value of financial instruments	-5,756	-42,918	1,286	649	-6,825	-1,548	9,511	2,016
(+/-) Net exchange differences	1,093	-1,264	-357	-21,941	12	-7,470	-7,483	38
(+/-) Profit (loss) on disposal of financial investments		-190	-488	17,825	19,913	-3,549	40,851	17,278
= FINANCIAL INCOME	**-60,350**	**-113,615**	**-47,487**	**-60,258**	**-49,826**	**-93,807**	**-29,368**	**-42,129**
(+/-) Profit (loss) companies using the equity method	-2,479	-2,290	-6,580	-1,450	-3,985	-4,232	-1,521	-1,341
= PROFIT (LOSS) FROM CONTINUING OPERATIONS	**108,002**	**8,780**	**-135,380**	**-52,553**	**4,301**	**-391,596**	**-24,256**	**-26,338**
(+/-) Corporation tax	-8,495	-3,730	20,270	5,109	6,200	55,501	-9,122	-15,611
= PROFIT (LOSS) FOR THE YEAR - CONTINUING	**99,507**	**5,050**	**-115,110**	**-47,444**	**10,501**	**-336,095**	**-33,378**	**-41,949**
(+/-) Profit (loss) discontinued operations net of tax							-6,669	31,509
= PROFIT (LOSS) FOR THE FINANCIAL YEAR	**99,507**	**5,050**	**-115,110**	**-47,444**	**10,501**	**-336,095**	**-40,047**	**-10,440**
a) Attributable to Parent Company shareholders	77,443	26,792	-97,100	-41,296	6,231	-292,110	-41,562	-9,550
b) Attributable to non-controlling interests	22,064	-21,742	-18,010	-6,148	4,270	-43,985	1,515	-890

(Source: Own elaboration with data from the CNMV and NH and Meliá consolidated financial statements)

Annex 2. Statistical calculations for NH and the hotel sector in Spain

Table 1. Total assets of NH and the hotel sector in Spain, 2007-2014 (€ thousand)

	Total assets	2007	2008	2009	2010	2011	2012	2013	2014
	NH	**3,325,588**	**3,294,317**	**3,535,943**	**3,320,897**	**3,074,770**	**2,825,335**	**2,687,374**	**2,660,999**
Sector	Mean	321,328	349,982	370,532	353,751	352,806	322,928	333,197	342,044
	Standard deviation	632,908	634,430	667,925	639,738	619,601	511,955	578,040	561,721
	Minimum	1,177	2,863	39,572	48,303	70,791	91,044	91,559	100,933
	Maximum	3,325,588	3,294,317	3,535,943	3,389,772	3,369,181	2,825,335	3,374,210	3,216,173
	10th percentil	51,373	69,993	85,652	89,703	93,161	102,541	110,367	111,790
	25th percentil	101,674	113,111	122,660	119,180	118,363	115,353	115,337	130,132
	50th percentil	128,735	138,554	156,679	173,564	172,630	158,811	160,557	155,790
	75th percentil	247,066	304,970	300,710	285,805	283,193	284,648	271,325	293,400
	90th percentil	444,432	643,810	674,281	652,753	680,957	508,623	477,846	532,740

(Source: Own elaboration with data from the database SABI)

Table 2. Net turnover of NH and the hotel sector in Spain, 2007-2014 (€ thousand)

	Net turnover	2007	2008	2009	2010	2011	2012	2013	2014
	NH	**1,463,626**	**1,460,108**	**1,209,750**	**1,281,940**	**1,330,986**	**1,286,033**	**1,260,492**	**1,246,955**
Sector	Mean	120,663	124,841	113,920	114,407	124,290	102,296	125,549	134,563
	Standard deviation	305,286	284,645	251,659	257,977	273,644	209,612	269,540	284,184
	Minimum	325	391	798	2,297	2,295	473	171	165
	Maximum	1,463,626	1,460,108	1,209,750	1,281,940	1,335,322	1,286,033	1,351,984	1,464,284
	10th percentil	5,013	4,746	5,723	7,954	9,437	8,085	7,982	8,667
	25th percentil	13,675	15,068	13,727	16,825	21,650	19,554	22,857	23,240
	50th percentil	25,130	28,113	27,365	33,251	37,440	35,224	36,095	39,004
	75th percentil	53,803	56,657	63,159	61,539	69,594	72,405	80,396	87,605
	90th percentil	218,842	246,250	225,619	240,082	243,577	215,077	227,899	244,562

(Source: Own elaboration with data from the database SABI)

Table 3. Return on assets of NH and the hotel sector in Spain, 2007-2014 (%)

	ROA	2007	2008	2009	2010	2011	2012	2013	2014
	NH	**3.30%**	**0.15%**	**-3.37%**	**-1.38%**	**0.33%**	**-11.39%**	**-1.45%**	**-0.39%**
Sector	Mean	0.56%	0.56%	-0.41%	0.01%	0.43%	-2.34%	0.37%	2.06%
	Standard deviation	9.19%	4.44%	5.06%	6.30%	7.11%	11.50%	7.42%	5.75%
	Minimum	-6.31%	-5.89%	-23.30%	-29.04%	-37.69%	-46.62%	-38.87%	-5.57%
	Maximum	58.17%	24.15%	9.74%	20.43%	14.15%	14.02%	16.36%	27.04%
	10th percentil	-1.60%	-2.44%	-5.24%	-4.19%	-5.12%	-9.01%	-4.21%	-4.57%
	25th percentil	-0.18%	-0.95%	-2.56%	-1.57%	-0.52%	-2.57%	-1.38%	-0.74%
	50th percentil	1.33%	0.89%	0.12%	0.04%	0.85%	0.03%	0.40%	0.82%
	75th percentil	4.66%	2.33%	1.50%	2.47%	2.31%	2.29%	3.20%	3.78%
	90th percentil	7.60%	4.78%	5.17%	5.11%	6.70%	5.94%	7.09%	9.07%

(Source: Own elaboration with data from the database SABI)

Table 4. Profit margin ratio of NH and the hotel sector in Spain, 2007-2014 (%)

	Profit margin	2007	2008	2009	2010	2011	2012	2013	2014
	NH	**6.82%**	**0.35%**	**-9.52%**	**3.70%**	**0.78%**	**-26.13%**	**-3.25%**	**-0.84%**
Sector	Mean	16.37%	15.35%	-6.88%	-2.96%	8.02%	-19.72%	20.10%	6.33%
	Standard deviation	42.43%	49.38%	80.44%	32.02%	44.92%	140.07%	95.17%	33.64%
	Minimum	-44.19%	-34.53%	-479.28%	-170.38%	-57.46%	-946.84%	-42.02%	-77.86%
	Maximum	196.56%	228.35%	217.45%	75.38%	276.12%	199.63%	621.72%	177.69%
	10th percentil	-16.40%	-14.87%	-25.23%	-26.69%	-24.42%	-41.56%	-17.30%	-23.07%
	25th percentil	-3.29%	-1.20%	-15.03%	-9.02%	-2.25%	-14.40%	-7.66%	-3.72%
	50th percentil	6.65%	3.58%	2.25%	0.76%	4.19%	0.15%	2.61%	2.92%
	75th percentil	17.73%	12.95%	9.64%	9.98%	10.58%	11.01%	13.66%	12.11%
	90th percentil	65.75%	34.44%	18.04%	16.94%	26.15%	23.36%	28.56%	31.74%

(Source: Own elaboration with data from the database SABI)

Table 5. Total asset turnover of NH and the hotel sector in Spain, 2007-2014

	Total asset turnover	2007	2008	2009	2010	2011	2012	2013	2014
	NH	**0.48**	**0.44**	**0.35**	**0.37**	**0.42**	**0.44**	**0.45**	**0.47**
Sector	Mean	0.32	0.28	0.23	0.25	0.27	0.25	0.30	0.30
	Standard deviation	0.43	0.27	0.20	0.22	0.22	0.21	0.29	0.28
	Minimum	0.00	0.00	0.01	0.02	0.02	0.00	0.00	0.00
	Maximum	2.62	1.47	0.92	1.20	1.08	1.01	1.70	1.67
	10th percentil	0.04	0.04	0.04	0.05	0.08	0.07	0.07	0.07
	25th percentil	0.11	0.10	0.09	0.10	0.15	0.14	0.15	0.15
	50th percentil	0.22	0.20	0.17	0.19	0.20	0.19	0.20	0.21
	75th percentil	0.32	0.32	0.29	0.30	0.33	0.32	0.35	0.33
	90th percentil	0.58	0.58	0.50	0.47	0.57	0.47	0.59	0.55

(Source: Own elaboration with data from the database SABI)