



**American University of Armenia**

**Հայաստանի Ամերիկյան Համալսարան**

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## **3-Star Hotel in Yerevan**

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## Contents

Glossary and Abbreviations .....	3
Executive summary .....	4
1. Macroeconomic indicators of Armenia .....	6
2. Hospitality industry in Armenia .....	8
2.1 Incoming tourism in Armenia.....	9
2.2 Sightseeing .....	12
2.3 Hospitality sector players.....	13
2.4 Other opportunistic factors.....	14
2.5 Why Armenia.....	15
3. Hotels in Yerevan .....	16
4. Hotel Charles .....	18
4.1 Operating plan & Facilities .....	19
4.2 SWOT analysis of hotel Charles .....	21
4.3 Pricing Policy.....	22
4.4 Market Positioning and competitors .....	23
4.5 Marketing Plan.....	25
4.7 Share in market .....	28
4.8 Assumptions and Risks.....	29
4.9 Investment plan .....	31
4.10 Financial plan.....	32
4.11 Sensitivity analysis.....	35
Exhibits.....	36

## **Glossary and Abbreviations**

AMD- Armenian dram

Bln- Billion

B&B- Bed and Breakfast

CA- Current asset

CBA- Central Bank of Armenia

CL- Current liability

COGS- Cost of Goods Sold

Economy class- 3-star

Exchange rate- 1 USD= 485 AMD

G&A- General and Administrative

GDP- Gross Domestic product

IRR- Internal rate of return

Luxe- 5-star

Mid-class- 4-star

Mln- Million

NCA- Non-current asset

NCL- Non-current liability

NPV- Net Present Value

NSS RA- Armenian Statistical Center of Republic of Armenia

ROA- Return on Assets

ROI- Return on Investments

Sqm- Square meters

T&T Report- Travel and Tourism report

UNESCO- United Nations Educational, Scientific and Cultural Organization

USD- US dollar

VAT- Value added tax

## **Executive summary**

The following Capstone Project presents feasibility analysis for the construction of a 3-star hotel business model in Yerevan, Armenia. First of all, it will give the opportunity to apply all the knowledge that we have covered during academic studies and see it working in practice. Second, it can become a real business opportunity, as we will be able to sell the model to interested investors in the market or bring it to life by ourselves.

The main aim of this Capstone project is to assess the feasibility of establishing economy-class hotel in the center of Yerevan targeted to business and leisure travelers; to understand which are the necessary conditions and needs for the hotel to be profitable.

The report starts with the macroeconomic condition in Armenia, hospitality industry as a whole and travel & tourism in particular. Later, it presents hotels industry in Yerevan and potential opportunities to enter the market. At the end, business model for 3-star hotel Charles is suggested, supported with financial analysis.

The research of hospitality industry in Armenia, as well as the increasing number of incoming international tourists showed the positive tendency in this sector. The main reasons to visit Armenia are: rich cultural heritage, architecture, diversity of nature and climate, unique national cuisine, hospitality of local people, high quality of services, etc.

In the period of 2011-2016, the number of tourists visiting Armenia has increased from 832,746 to 1,259,657, and only 14% of them stayed in hotels. The main part of tourists are coming from EU countries, Russia and Iran, and the purpose is mainly leisure or business.

Average occupancy rates of the hotels for the year are 55%, 58% and 60% for 3-star, 4-star and 5-star hotels correspondingly. Taking more conservative approach, for the first year of operations the occupancy rate of hotel Charles is taken to be 50%.

Incorporating the trend of 12% growth in number of tourists per year, and the projected 50% occupancy rate for hotel Charles it was forecasted that in 2019 the total number of tourists visiting Armenia will be 1,769,727 out of which 247,762 will stay in hotels, and the share of Charles in the market will be 1.62%. More detailed information on the tendency of incoming tourists, occupancy rates of the hotels, as well as on the market share of Charles are presented in the further sections of the report.

Financing of the project will be 40% investment of shareholders in the form of subordinate debt with 0% interest (USD 1,5 mln) and \$100,000 share capital, and 60% loan from bank (USD 2,4 mln) at a rate of 11% annually.

The preparatory period including fundraising, and time needed to find investors is considered to start from 1 June 2017. The construction is projected to start since 1 Sep 2017, and the first year of hotel operations is taken to be 2019. More detailed information on the investment plan, financial statements as well as on the sensitivity analysis are presented in the section 4 of the report.

The observations of hotels in Yerevan, supported with number of reports and interviews let us conclude that the market has not reached its saturation limit yet, and there is still unsatisfied demand for economy class hotels with affordable prices. After preparing the financial plan (Section 4.10) and running the sensitivity analysis (Section 4.11) for the project it was concluded that the opening of a new 3-star hotel Charles in Yerevan with USD 4 mln investment and with the payback period of 7 years is feasible.

#### Income statement (2018-2025)

	2018	2019	2020	2021	2022	2023	2024	2025
Sales	\$ -	\$ 718,696	\$ 827,373	\$ 907,286	\$ 1,024,634	\$ 1,054,940	\$ 1,086,155	\$ 1,196,498
COGS	\$ -	\$ 248,108	\$ 267,546	\$ 296,955	\$ 318,703	\$ 324,692	\$ 330,861	\$ 356,193
Gross Profit	\$ -	\$ 470,588	\$ 559,827	\$ 610,331	\$ 705,931	\$ 730,248	\$ 755,294	\$ 840,305
G&A Costs	\$ 26,892	\$ 144,226	\$ 141,945	\$ 143,148	\$ 149,915	\$ 152,175	\$ 154,503	\$ 160,211
PBIT	\$ (26,892)	\$ 326,362	\$ 417,882	\$ 467,182	\$ 556,016	\$ 578,072	\$ 600,791	\$ 680,093
Interest expense	\$ (264,000)	\$ (264,000)	\$ (233,200)	\$ (182,600)	\$ (124,300)	\$ (62,700)	\$ (11,000)	\$ -
PBT	\$ (290,892)	\$ 62,362	\$ 184,682	\$ 284,582	\$ 431,716	\$ 515,372	\$ 589,791	\$ 680,093
NI	\$ (290,892)	\$ 62,362	\$ 184,682	\$ 236,436	\$ 345,373	\$ 412,298	\$ 471,833	\$ 544,075
Profitability margin		8.7%	22.3%	26.1%	33.7%	39.1%	43.4%	45.5%

*\*Assumptions are stated further in the paper.*

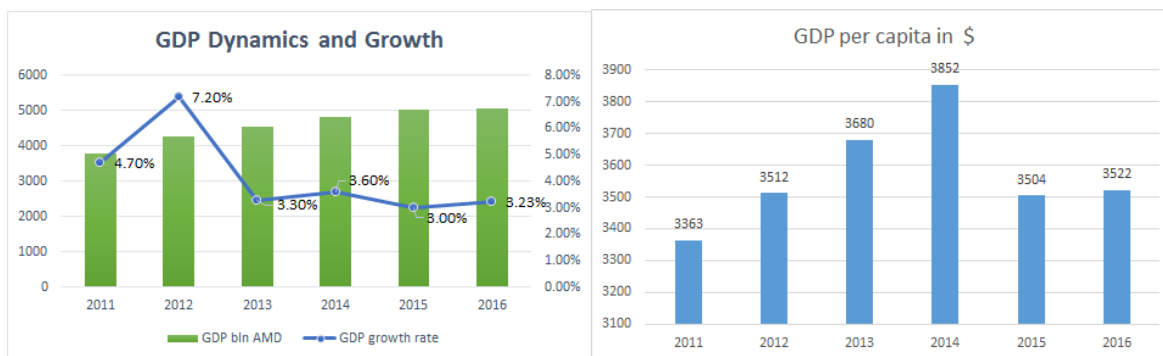
#### Statement of financial position (2018-2025)

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Assets</b>								
Non-current assets	\$ 3,686,830	\$ 3,419,106	\$ 3,132,998	\$ 2,836,949	\$ 2,523,048	\$ 2,239,858	\$ 2,073,358	\$ 1,906,858
Current assets	\$ 22,795	\$ 73,469	\$ 84,291	\$ 86,810	\$ 101,119	\$ 76,643	\$ 75,013	\$ 160,626
<b>Total Assets</b>	<b>\$ 3,709,625</b>	<b>\$ 3,492,575</b>	<b>\$ 3,217,290</b>	<b>\$ 2,923,759</b>	<b>\$ 2,624,167</b>	<b>\$ 2,316,501</b>	<b>\$ 2,148,371</b>	<b>\$ 2,067,484</b>
<b>Equity and Liability</b>								
Equity	\$ (190,892)	\$ (128,530)	\$ 56,152	\$ 292,587	\$ 637,960	\$ 1,050,258	\$ 1,522,090	\$ 2,066,165
Non-current liabilities	\$ 3,900,000	\$ 3,620,000	\$ 3,160,000	\$ 2,630,000	\$ 1,985,000	\$ 1,265,000	\$ 625,000	\$ -
Current liabilities	\$ 517	\$ 1,105	\$ 1,138	\$ 1,172	\$ 1,207	\$ 1,243	\$ 1,281	\$ 1,319
<b>Total Equity and Liability</b>	<b>\$ 3,709,625</b>	<b>\$ 3,492,575</b>	<b>\$ 3,217,290</b>	<b>\$ 2,923,759</b>	<b>\$ 2,624,167</b>	<b>\$ 2,316,501</b>	<b>\$ 2,148,371</b>	<b>\$ 2,067,484</b>

NPV	\$ 43,945
IRR	17.25%
Payback period	7 years

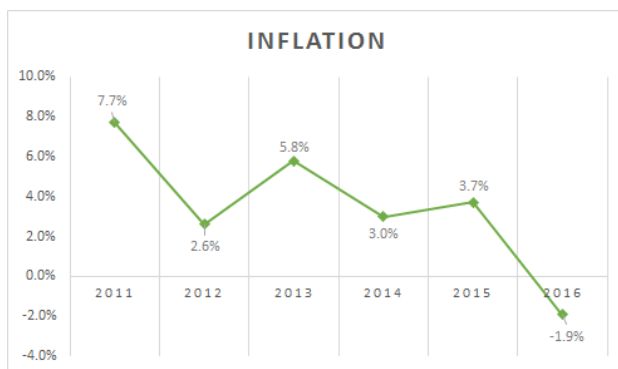
## 1. Macroeconomic indicators of Armenia

This section reveals the macroeconomic situation in Armenia during the past 6 years. According to the NSS RA, the GDP in 2016 was USD 10.5 bln (AMD 5068 bln), which is a 3.4% growth compared to the GDP of USD 10,14 bln in 2011 (AMD 3778 bln). GDP per capita grew almost proportionally. It was increasing by 3.5% during the last 5 years, although in 2015 it dropped significantly in dollar terms because of exchange rate fluctuation.

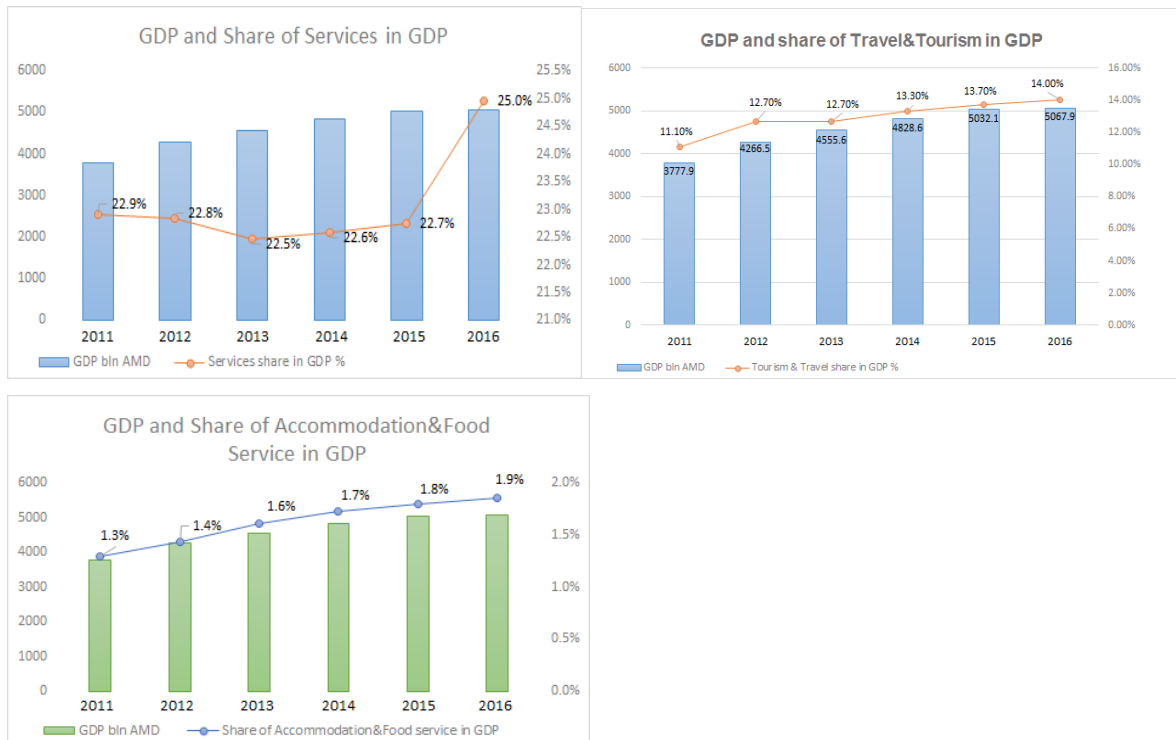


Source: NSS RA

At the same time, inflation rate in Armenia has been a little bit fluctuant, but in acceptable limits. After five years of positive inflation rate, it recorded -1.9% in 2016. Central Bank of Armenia targets inflation rate (end of period) to be in a range of 4% in 2017.

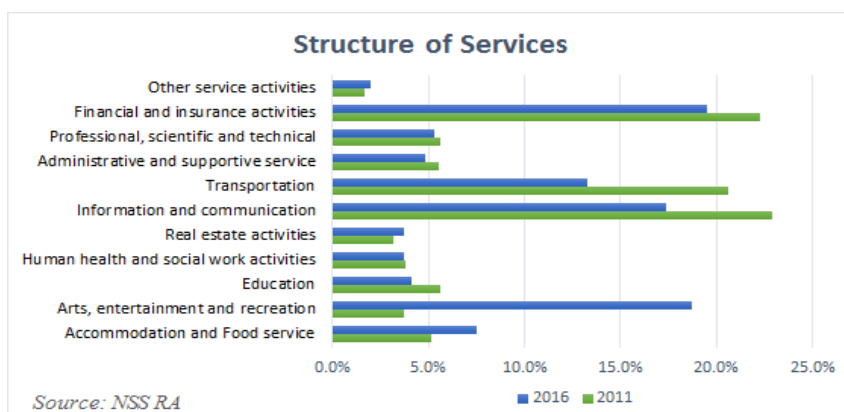


The share of Services in GDP attained 25% of total GDP in 2016, share of Travel & Tourism reached 14%, and separately the share of Accommodation and Food services, that is part of Travel & Tourism, was 1,9% in the same year. Accommodation and Food services include hotels and other types of accommodation, as well as restaurants, cafes, etc. Its share in GDP has a growth tendency, like the share of Travel & Tourism.



Source: NSS RA

The histogram below compares the structure of Services in Armenia for 2011 and 2016. The main five branches are: Financial and Insurance activities, Transportation, Information and Communication, Arts, Entertainment and Recreation, and Accommodation and Food service. The last one is the primary subject of our interest, increasing from 5,1% of Total services in GDP in 2011 up to 7,5% in 2016.

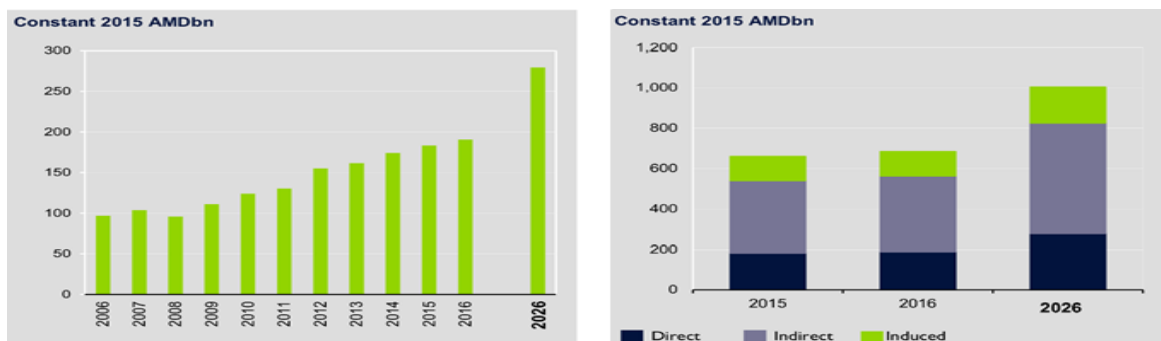


**Conclusion:** during the last 5 years the GDP of Armenia had growing tendency, which was followed also with increase in shares of Travel & Tourism, as well as of Accommodation and Food services.

## 2. Hospitality industry in Armenia

According to the World Travel & Tourism Council Report of 2016 the direct contribution of Travel & Tourism to GDP was USD 400 mln (AMD 183.4 bln -3,8% of total GDP), while the total contribution was USD 1,42 bln (AMD 660.9 bln-13,7% of GDP) in 2015. The direct contribution primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services, as well as the activities of the restaurant and leisure industries directly supported by tourists. It is forecasted for the direct and total contribution to rise by 3.9% pa from 2016-2026.

### Direct Contribution of Travel & Tourism to GDP    Total Contribution of Travel & Tourism to GDP



Source: WTTC Report 2016

According to the same report, in 2015 Travel & Tourism directly supported 40,000 jobs (3.3% of total employment). This is expected to rise by 0.5% pa to 43,000 jobs (3,4% of total employment) in 2026. Travel & Tourism investment in 2015 was USD 83,7 mln (AMD 40.6 bln- 4,8% of total capital investment) and this is expected to rise by 3.8% pa over the next ten years to USD 126,2 mln (AMD 59.9 bln) in 2026. Money spent by foreign visitors in Armenia is a key component of the direct contribution of Travel & Tourism and in 2015, Armenia generated USD 902 mln (AMD 437.5 bln- 29.6% of total exports) in visitor exports. It is expected that Armenia will attract total expenditure of USD 1,33 bln (AMD 643.1 bln) by 2026.



## **2.1 Incoming tourism in Armenia**

Armenia is rich in historical-cultural and natural resources which makes it attractive for tourists. Tourism industry has shown stable growth throughout past years, and has the potential to further develop. For that it is working to provide high quality products and services tailored to the needs of more demanding customers.

According to Tourism Development Paper of Armenia:

- 1) There is a demand for higher standards of service and destinations that offer more of an experience/adventure rather than a vacation in the global market today.
- 2) Increased preference for independent, tailored, and small group travel compared to mass tourism packages.
- 3) Tourism enterprises focusing more on customer satisfaction, safety and service quality.
- 4) Increased demand for MICE (meetings, incentives, conferences, exhibitions) travel.
- 5) Cultural tourism growing.
- 6) Ageing population and health concerns, leading to growth in spa, medical & health tourism.
- 7) Youth market seeking more active and adventure tourism.
- 8) Increasing concern for climate change, and growth in environmental and social responsibility tourism services. Drastically rising demand for ecotourism and nature-based holidays.

Tourism industry in Armenia has been in stable growth throughout past years with on average 11% annual growth rate. According to the official website of National Statistical Services and World Bank Data, in 2016 we had approximately 1,260,000 tourists visiting Armenia, a number which has tripled during the last 10 years. Moreover, State Tourism Committee of Armenia has put a target to double the number to 2,5 mln in 3 years. However, in the following forecasts a more conservative 12% growth rate is applied, reaching 2 mln tourists by 2020.



Source: NSS RA

State Tourism Committee with the support of Armenian Government actively presents Armenia in international exhibitions and fairs dedicated to tourism sector. During this year of 2017, USD 206,186 (AMD 100 mln) is allocated from state budget for promoting tourism in Armenia.

According to The Travel & Tourism Competitiveness Report 2017 published by the World Economic Forum, Armenia is 84<sup>th</sup> in the ranking of the index, 74<sup>th</sup> in tourism service infrastructure and 34<sup>th</sup> in Safety and Security. It is below Georgia, Azerbaijan and Turkey, however is improving its position year to year. The full list of criteria for Armenia, Georgia, Azerbaijan and Turkey in Travel & Tourism Competitiveness Report is presented below.

	Armenia		Georgia		Azerbaijan		Turkey	
	2015	2017	2015	2017	2015	2017	2015	2017
2017 index (out of 136 countries)	89/141	84/136	71/141	70/136	84/141	71/136	44/141	44/136
<b>Enabling Environment</b>								
Business Environment	50	39	32	22	65	57	59	63
Health and Hygiene	48	48	31	36	44	37	121	64
Safety and Security	38	34	32	29	36	35	63	116
ICT readiness	69	71	74	67	52	50	88	72
HR and labour market	71	45	50	51	36	30	68	94
<b>T&amp;T policy and Enabling conditions</b>								
Environmental sustainability	97	102	52	42	94	81	83	112
International openness	83	95	58	66	107	77	61	55
Price competitiveness in the T&T industry	77	80	66	66	65	31	94	70
Prioritization of Travel & Tourism	80	71	53	41	58	49	95	87
<b>Infrastructure</b>								
Air transport infrastructure	92	88	94	90	84	77	16	14
Ground transport infrastructure	97	88	67	63	65	49	54	54
Tourist service infrastructure	73	74	50	70	93	89	38	42
<b>T&amp;T cultural and natural resources</b>								
Natural resources	136	89	125	106	130	109	73	70
Cultural resources	99	99	87	81	75	69	16	16

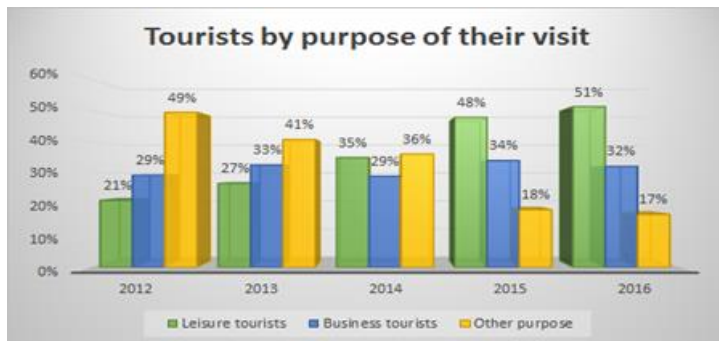
*Source: T&T Report 2015, 2017*

According to statistics of 2016, tourists, that visit Armenia, are mostly coming from EU countries (27%), Russia (19,2%), Iran (18,2%) and US (10,3%). The chart presented below shows the changes of tourists' origin from 2012 to 2016 (Exhibit 1). As we can see, the percentage of tourists coming from EU countries has decreased in total structure, while the percentage of those who come from our neighboring country- Iran more than doubled during the last five years.



Source: NSS RA

According to NSS RA, the main aims of arrival were leisure (51,1%), business (32,1%) and other (16.8%), including health, education in 2016. As we can mention from the histogram below the proportion of business tourists has increased gradually, while the proportion of leisure tourists has more than doubled in 5 years, constituting one half of arrivals (Exhibit 2).



Source: NSS RA

According to the same source, in 2016 only 14% of tourists stayed at hotels, that is about 180.000 people per year, with an average stay of 5 days in hotels. Tourists spent USD 902 mln (AMD 437,5 bln) in 2015, that is USD 770 (AMD 367.000) per person in 2015, and USD 804 in 2016.



Source: NSS RA

## **2.2 Sightseeing**

Armenia is an attractive touristic destination and is called “an open air museum”. There are numbers of museums and sightseeing to visit both in the capital Yerevan and in other regions. There are 135 museums in Armenia, out of which 64 are located in Yerevan, including history museums, house-museums, art-galleries etc. Ararat brandy factory that has more than 119 years of history and Byurakan Observatory, which is an astronomical observatory, Matenadaran that is the Scientific Research Institute of Ancient Manuscripts are considered to be must-visit places in Armenia for tourists.

Armenians were the first to adopt Christianity as a state religion, so the other must-visit places for tourists are churches, architecture of which is unique and exceptional. Etchmiadzin Cathedral is the mother church of the Armenian Apostolic Church and is one of tourism attractions with its beautiful gardens and historical museums.

Armenia has beautiful nature. There are places to visit for extreme lovers, like Yell Park, and for the ones who simply like to enjoy the fresh air, like Dilijan national park. Tsaghkadzor is a popular ski resort in Armenia and it is an attraction for many winter sport lovers from abroad. Ecotourism is another developing route.

### **2.3 Hospitality sector players**

Since 2004 the Union of Incoming Tour Operators in Armenia (UITO) was created, which consists of 24 members and 4 associate members. Generally, there are 587 tour agencies in Armenia, 529 of which are operating in Yerevan. Average tour offers in Yerevan are for 6 days.

Local restaurants offer not only traditional Armenian cuisine but also those of Asian, Mediterranean, Russian, Arabic, etc. The total number of restaurants operating in Yerevan is 201, 35 of them are located in the radius of 2 kilometers from Cascade Complex. The majority of hotels have their own restaurants that are open not only for their guests but also for outside visitors. Some hotels have more than one restaurant, a bar and a cafe. Tourists may also be interested in visiting jazz clubs that are popular in Yerevan, as well as opera, concerts and ballet.

Infrastructure is poorly developed: the interstate highways and roads are in bad conditions. The prices for public transportation are low, though the quality is also not high. There are buses, but they don't have a fixed schedule which can confuse tourists. The bus stops as well as the streets, stores and other public places do not have their name tags in English, which can be another factor for confusion. Metro can also be considered as a means of transport, especially in center where the traffic is high.

At the same time the prices for taxi are also low: this can definitely be mentioned as an advantage for tourists.

By the year 2017 there are 23 airline companies operating in Armenia: Armenia Aircompany (Armenia), Air France (France), Austrian Airlines (Austria), Lot Polish Airlines (LOT) (Poland), Aegean Airlines (Greece), FlyDubai (UAE), Air Arabia (UAE), Qatar Airlines (Qatar), Middle East Airlines (Lebanon), Iranian Naft Airlines (Iran), Mahan Air (Iran), Iran Aseman Airlines (Iran), Aeroflot-Russian Airlines (Russia), S7 Airlines (Russia), Ural Airlines (Russia), UTAir Aviation (Russia), VIM Airlines (Russia), Nord Wind (Russia), Rossiya Airlines (Russia), Grozny Avia (Russia), Ukraine International Airlines (Ukraine), Scat Air (Kazakhstan), Atlasjet Airlines (Turkey). Costs for air transportation are very high, as there are limited number of competing airlines, and airport taxes are high. However, Armenia has passed to open sky policy, which aims to liberalize rules and regulations of the international aviation industry, in order to create a free market environment for airline industry. So this policy will help to increase the number of international airlines entering and operating in Armenian market, which will result in lower prices. Also, timing and frequent flights will be more convenient for business people.

## **2.4 Other opportunistic factors**

- 1) Visa-free regime exists for a number of EU countries and USA. In addition there is no requirement of visa for citizens of Argentina, Brazil, Uruguay and former USSR.
- 2) On 23 February 2017 a decision was made, according to which citizens of Russian Federation can visit RA with their internal ID cards, instead of Foreign Passports, as it was required before.
- 3) Cooperation between Development Foundation of Armenia (DFA) and United Nations Development Program (UNDP) was established in 28 January 2016 to support the development of tourism sector in Armenia and enhance the role of tourism sector in socio-economic development.
- 4) Regional tourism development can increase the number of incoming tourists in Armenia, as most frequently tourists prefer to visit all the countries of Caucasus together. Our neighboring countries Georgia, Turkey and Azerbaijan take steps and invest in advertising campaigns to attract more tourists.
- 5) Development of ecotourism and rural tourism, which is favorable by our natural conditions, can bring in additional number of tourists. Adventure tourism is another emerging possibility to attract tourists.
- 6) Improving relationship with Iran can bring in a great number of business and leisure tourists. For that, State Tourism Committee is participating in various number of trade fairs and promoting Armenia as a touristic destination.

## **2.5 Why Armenia**

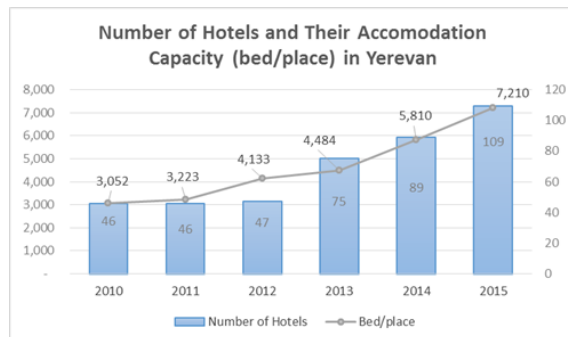
The following summary presents the supporting factors for tourists to choose Armenia as touristic destination.

- Diversity of nature and climate
- Unique historical monuments, memorial sites, museums
- Rich UNESCO heritage
- Higher quality restaurants, cafes, pubs
- Low public transportation costs
- Hospitality of Armenians
- National cuisine
- Regional tourism development
- Open sky policy
- Visa-free regime for citizens of more than 50 countries
- Organization of interesting festivals and concerts
- Developing ecotourism in Armenia
- Improving quality of service sector (labor market 71st -> 45th)
- Safety and security of Armenia (38th->34th)
- Prioritization of Travel and Tourism (80th -> 71st)
- Improving ground transport infrastructure (97th -> 88th)

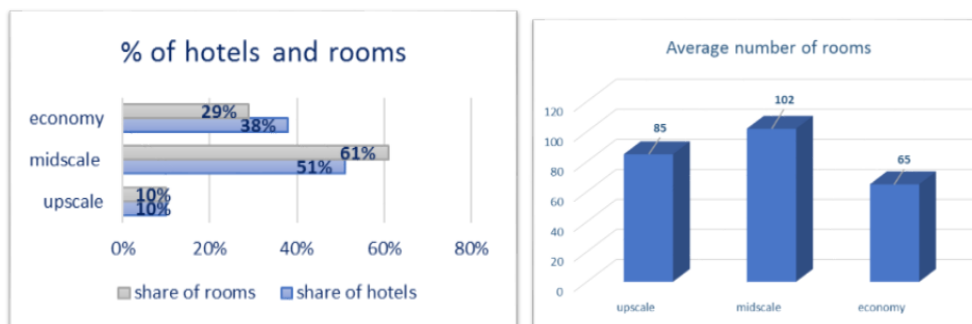
As a result, we have higher ranking in Tourism & Travel Competitiveness report 2017 (from 89th to 84th), published by World Economic Forum, as well as 18% growth in number of tourists compared with the same period in 2016.

### 3. Hotels in Yerevan

According to NSS RA, as of 2015, there were 449 hotels and similar accommodations in Armenia out of which 109 hotels with 7,210 beds were in Yerevan. The histograms which present the total number of available hotels and rooms, as well as the percentages of each type of rooms are presented in Exhibit 3. The graph below presents the number of hotels and bed capacity in Yerevan for the period of 2010-2015.



During the past 4 years the number of hotels in Yerevan grew by 2.3 times, while the number of beds capacity grew by 1.7 times. This means that more hotels with smaller capacity of beds were opened recently.



The presented graphs show that 38% of hotels are 3-star, however only 29% of rooms in the whole supply are of economy class. This can be explained by the fact, that Economy class hotels have on average 65 rooms, while midscale hotels have 102 rooms and upscales have 85 rooms.

Within the framework of a primary research, 40 hotels with 3-5 stars in Yerevan were observed. Price ranges for room/night (including VAT) in these hotels are the following:

- 5-star hotels: USD 131-175;
- 4-star hotels: USD 84-108;
- 3-star hotels: USD 51-69.



Prices for breakfast vary from USD 6-30 per person depending on the stars of hotel.

Price ranges for average bill per person in restaurants of the hotels are the following:

- 5-star hotels: USD 20-25;
- 4-star hotels: USD 15-20;
- 3-star hotels: USD 10-15.

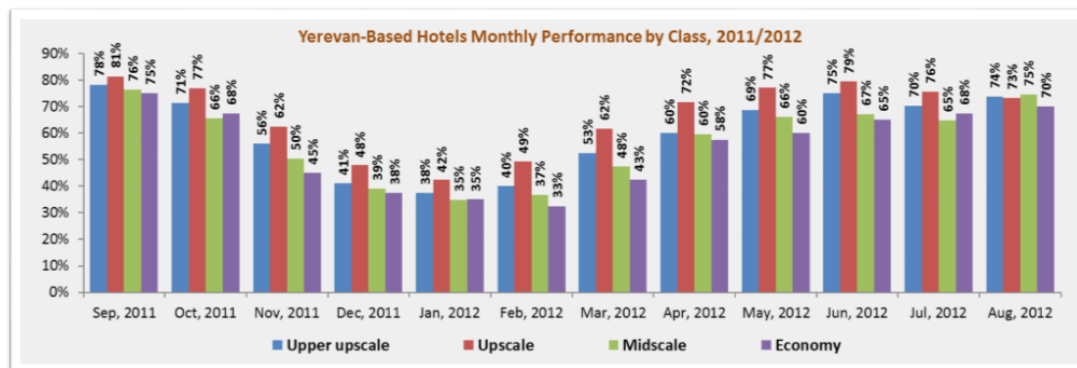
Renting a conference hall is a possible option for all hotels and the prices vary depending on capacity and provided facilities. Price ranges for renting a conference hall per day in a hotel is the following:

- 5-star hotels: USD 300-250;
- 4-star hotels: USD 105-150
- 3-star hotels: USD 80-110

Swimming pool and SPA can be found in few of 3-star hotels, yet the majority of 4-stars and all of the 5-stars hotels have one for extra charge.

Questionnaire used for gathering information and full information on 40 hotels can be found in Exhibit 4.

The highest occupancy for all class Yerevan-based hotels is observed in the month of September, when it can go up to 80%. The least occupancy is observed in January-February, when it can drop to 30%.



Source: Hospitality Industry in Armenia Report 2012 – AmeriaGroup

Average occupancy rates for the year are 55%, 58% and 60% for 3-star, 4-star and 5-star hotels correspondingly. The Occupancy rates of economy, midscale and upscale hotels for 2008-2012 are presented below.

**Analysis of the market let us conclude that there is still a growing demand for economy class hotels with affordable prices in the center of Yerevan.**

#### **4. Hotel Charles**

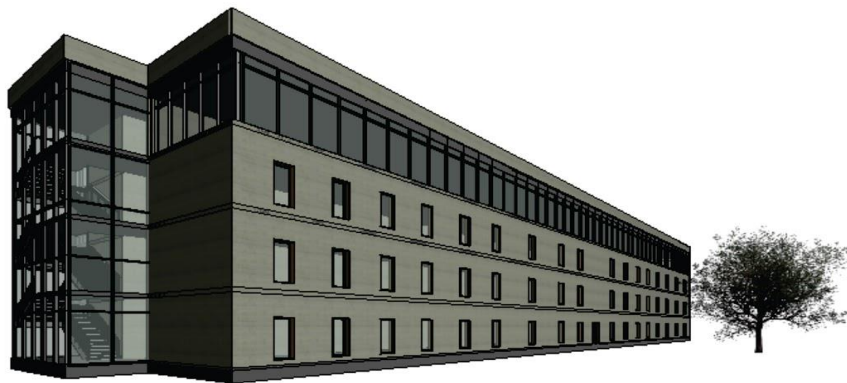
From industry and market analysis (conducted market research) we concluded that there is a growing demand for economy class hotels with affordable prices in the center of Yerevan. What we suggest is a 3-star hotel with 60 rooms, equipped with a restaurant, lobby-bar, 1 conference hall, 2 meeting rooms and 2 shops for rent. The hotel will be located on top of Cascade complex and will be named Charles after our renowned legend Charles Aznavour. So, we will have musical theme both in interior design and entertainment programs. On weekends, jazz bands will give live concerts in the restaurant to entertain our guests.

Our target will be business tourists as well as leisure travelers who prefer to stay at hotel during their vacation. However, the biggest competitive advantage for Charles will be the relatively small size of the hotel, which will make it easier to provide individual approach to each and every customer. Creating long-term customer relationships and having loyal visitors will be our key to success.

#### **4.1 Operating plan & Facilities**

The hotel will be located on the Verin Antairain St. which is on top of Cascade complex. The land area is 1300 square meters. From this area 1000 square meters will be allocated for the building and the rest of the space will be used as a front yard with parking lots. Hotel Charles will be a 4 floor building, each floor will be 1000 square meters. The construction of the hotel will start in October 2017, and it will start operating from January 2019.

##### *Building of Hotel Charles*



Lobby and lounge zone will be located on one side of the first floor with a bar in the corner. Reception desk will be in front of the entrance, next to which visitors will find “Hyur service” tour agency desk and a currency exchange point. The other half of first floor will be allocated for two shops and office area that will have five offices for administrative employees. Shop areas are going to be given for rent: one for the souvenirs and gifts shop, the other one for a grocery shop.

The second and the third floors will be allocated for rooms- 30 rooms on each. Every room will be 25 square meters, including the bathroom (6 square meters), which is above the standard size.

A panorama glazing restaurant with a view of Yerevan will be located on the fourth floor. It will be accommodating 40 tables, and will be able to serve on average 150 people at a time. The restaurant will be open both for guests of the hotel and for outside visitors, and will offer wide variety of dishes.

Next to the restaurant there will be a conference hall and two meeting rooms. Each of meeting rooms will be equipped for group meetings of up to 10 people, and the conference hall- for 45-50 people. The plans for each floor of the hotel are presented in Exhibit 6.

The hotel will offer the following additional services: Laundry, Shuttles to Airport, Free Parking and Free Wi-Fi.

#### **4.2 SWOT analysis of hotel Charles**

The table below presents the SWOT analyses for hotel Charles.

<u>Strengths</u> <ul style="list-style-type: none"><li>▪ New building with international standards</li><li>▪ Panoramic view of the city</li><li>▪ Availability of meeting and conference halls</li><li>▪ Trained and high-qualified staff</li><li>▪ Personalized approach to guests</li></ul>	<u>Weaknesses</u> <ul style="list-style-type: none"><li>▪ Local hotel, not member of an international hotel chain</li><li>▪ New, unknown brand</li><li>▪ Absence of sport-club and swimming-pool</li></ul>
<u>Opportunities</u> <ul style="list-style-type: none"><li>▪ Increasing number of incoming tourists</li><li>▪ Organization of festivals or concerts of well-known artists in Yerevan</li><li>▪ Open-sky policy</li><li>▪ Participation in international trade fairs</li></ul>	<u>Threats</u> <ul style="list-style-type: none"><li>▪ Entry of new competitors</li><li>▪ Fluctuations in incoming tourist arrivals</li><li>▪ Geopolitical situation</li></ul>

### **4.3 Pricing Policy**

Hotel will offer a flexible pricing policy for high and low seasons. Discounts will be offered in case of making reservations in advance. The prices will be affordable and competitive to those of other hotels providing similar services in the same district. The table below presents separately the average prices for hotel rooms, conference hall and meeting rooms, rents for the shops, as well as prices for breakfast, lunch and dinner for 7 years. All prices are VAT inclusive.

	2019	2020	2021	2022	2023	2024	2025
<i>Price for single room</i>	\$ 55	\$ 57	\$ 58	\$ 60	\$ 62	\$ 64	\$ 66
<i>Price for double room</i>	\$ 65	\$ 67	\$ 69	\$ 71	\$ 73	\$ 75	\$ 78
<i>Price for breakfast</i>	\$ 5	\$ 5	\$ 5	\$ 6	\$ 6	\$ 6	\$ 6
<i>Price for lunch</i>	\$ 6	\$ 6	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7
<i>Price for dinner</i>	\$ 15	\$ 16	\$ 16	\$ 17	\$ 17	\$ 18	\$ 18
<i>Price for meeting rooms</i>	\$ 41	\$ 42	\$ 44	\$ 45	\$ 46	\$ 48	\$ 49
<i>Price for conference hall</i>	\$ 124	\$ 127	\$ 131	\$ 135	\$ 139	\$ 143	\$ 148
<i>Rent price for shops per month</i>	\$ 412	\$ 412	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515
<i>Rent price for tour agency desk per month</i>	\$ 103	\$ 106	\$ 109	\$ 113	\$ 116	\$ 120	\$ 123

#### **4.4 Market Positioning and competitors**

After observing the competitors, which have certain quality and reputation, we have positioned them by quality and prices. As criteria for quality we have chosen the correspondence to international standards, and the age of buildings.



The direct competitors for the hotel Charles can be local small to medium size hotels which offer the same type of services as our hotel does. As we can see from the graph Ani Plaza, Europe hotel and Aviatrans have similar characteristics to our hotel, but they have higher prices. This gives us opportunity to gain some share in the market as a good combination of price and quality.

Hotels such as ibis, Best Western, Hyatt Place can also be considered as competitors. However, taking into consideration that they are members of international hotel chains, we take them as indirect competitors. Such designation is also explained by the fact, that there is some category of travelers who prefer to stay only in chain member hotels, even though there are other local hotels of the same level.

Other indirect competitors can be considered B&B types of accommodations and hostels. B&B is a small lodging establishment that offers overnight accommodation and breakfast. These types of accommodations are often private family homes which offer their guests the minimum services for stay with lower prices than hotels.



The graph above shows the positioning of hotels by their location and prices. The center of city is taken to be Northern Avenue. We have a comparatively good positioning, being located on top of Cascade complex and being close to the city center. The map of hotels locations in Yerevan is presented in Exhibit 5.



#### **4.5 Marketing Plan**

The main goal of marketing strategy will be establishing working relationships with suppliers and customers. The target market of Charles is going to be business travelers and leisure tourists who prefer staying at hotel during their stay in Yerevan.

As it was mentioned, the hotel will be located on the Verin Antarian St., on top of Cascade complex, so will have an incredible view on the city. This is one of the competitive advantages of the hotel. The other advantages are going to be relatively low prices, high quality of services and all needed facilities for business meetings and conferences.

The attraction of the hotel will be the restaurant with a marvelous view that will be open for both hotel residents and guests. Every weekend evening live jazz concerts will be held.

Cooperation with local and non-local tour agencies will result in a larger number of visitors. There are programs which allow tour operators from around the world visit hotels in order to get acquainted and gain more information about the hotel, which later they are going to suggest to potential tourists. The hotel should be included into these programs and, as the biggest share of tourists are coming from EU countries (27%), Russia (19,2%), Iran (18,2%) and US (10,3%), it will be beneficial to emphasize on cooperation with tour agencies from these countries.

The hotel will cooperate with leading tour agencies, which are specialized on incoming tourists, such as “Hyr service”, “Armane”, “Levon Travel”, etc. The cooperation is going to be based on commissions for rooms reserved. Besides, the desk of “Hyr service” will be located on the first floor of the hotel and tourists will be able to book tours for sightseeing right from there.

As for advertising campaigns, digital marketing can be considered as a modern and one of the most effective methods. Hotel will have its official web page where visitors will be able to get information about the hotel, provided services, prices and will also have an opportunity to make a reservation. The hotel will also cooperate with international reservation systems, such as [www.booking.com](http://www.booking.com), [www.hotels.com](http://www.hotels.com), [www.agoda.com](http://www.agoda.com), and from local ones with [www.hotels.am](http://www.hotels.am) and [www.armhotels.am](http://www.armhotels.am). Presence in social media is a must nowadays: the hotel will have official pages on famous social networks like Facebook, Instagram, and Tripadvisor.

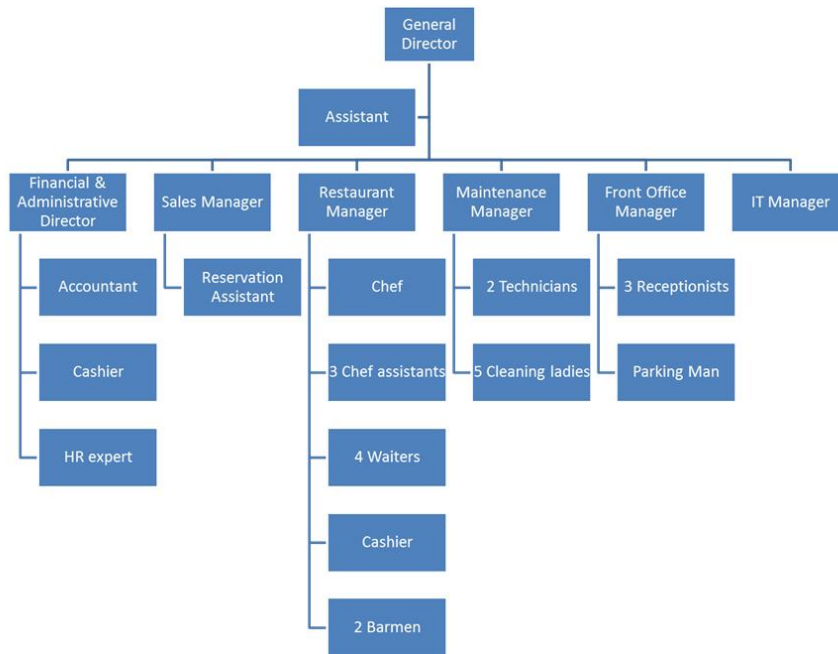
An advertising video will also help attract customers. This will be displayed not only on social media, but also in the Zvartnots International airport. When arriving guests can watch advertisement on the display when queuing for passport control. In case people have not made a reservation before arriving, this kind of advertisement will attract visitors to the hotel.

Other effective methods of advertising will be print ads in publications, flyers distributed in Zvartnots International Airport and in tour agencies. Flyers can also be distributed in the airplanes, so that potential customers will get acquainted with the name and services of the hotel even before arriving in Yerevan.

The breakdown of marketing and advertising expenses is presented in Exhibit 7.

#### **4.6 Management and organizational structure**

In this section the organizational chart that is optimal for a 3-star hotel is presented.



In total 36 employees will be considered for the hotel with total gross salaries of USD 13,258 in 2019. Later, the amount will be increased by incorporating 3% inflation in calculations for the same number of employees (Exhibit 8).

*Executive management group*- the group serves the leadership of the hotel. It includes General Director and Assistant Manager.

*General Director* is an overall manager of the hotel who has high sense of responsibility. This person must work with the managers of other departments, to make sure that the hotel is run effectively, the problems are handled and the guests are happy with the services of hotel.

*Assistant of GD's* main role is supporting General Director, and handling specific issues assigned to him/her. The person is responsible for smooth operation of hotel in case if General Director is unavailable.

*Financial management & Administrative group*- In this group Financial Director, Accountant, Cashier are responsible for providing the General Director and other management teams with timely, accurate and relevant financial data. HR expert is responsible for recruitment, learning and development, training of staff and for documentation.

#### **4.7 Share in market**

State Tourism Committee of Armenia has put a target to attract 2,5 million tourists in 3 years, by 2020. This means 18% annual growth of incoming tourists till 2020. Being more conservative, for our forecasts we took 12% annual growth instead of 18%, taking into account also the trend for last 5 years.

##### *Forecasted Market share*

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Rate
Number of tourists	1,259,657	1,410,816	1,580,114	1,769,727	1,982,095	2,219,946	2,486,340	2,784,700	3,118,864	3,493,128	12% growth rate
Number of tourists staying at hotels	176,352	197,514	221,216	247,762	277,493	310,792	348,088	389,858	436,641	489,038	14% of total
Market share of Charles				1.62%	1.59%	1.42%	1.38%	1.24%	1.10%	1.02%	

Incorporating the trend of 12% growth in number of tourists per year, their total number will be 1,769,727 in 2019. 14% of them that is 247,762 tourists will stay at hotels.

Bed capacity for hotel Charles will be  $(10 \text{ single} * 1 + 50 \text{ double} * 2) * 365 \text{ days} = 40,150$  beds per year. As average stay per tourist is 5 days, tourists that can stay at our hotel per year will be  $40,150 / 5 = 8,030$ . Therefore, our share for the first operating year of 2019 with average 50% occupancy will be  $8,030 * 50\% / 247,762 = 1.62\%$  in the market.

The full operational data considered in calculations is presented in Exhibit 9.

## **4.8 Assumptions and Risks**

In this section main assumptions for the financial statements and forecasting are presented, as well as some risks which the hotel can face.

### **Assumptions**

1. The depreciation is done by straight line model, and the base for depreciation of the building is taken to be 20 years, and of tangible and intangible assets 7 years. More detailed information on depreciation is presented in Exhibit 10.
2. Financing of the project will be 40% investment of shareholders in the form of subordinate debt with 0% interest (USD 1,5 mln) and \$100,000 share capital, and 60% loan from bank (USD 2,4 mln) at a rate of 11% annually. Exhibit 11 presents more detailed information on loan amortization.
3. The preparatory stage including fundraising, and time needed to find investors is considered to start from 1 June 2017. The construction is projected to start since 1 Sep 2017.
4. 2019 is taken to be the first year of hotel operations, however there are some General Administrative costs for the last 3 months of 2018, as the staff recruitment, trainings, administrative as well as marketing campaigns will start sooner during the preparatory stage.
5. 3% annual inflation rate is applied on sales and costs, starting from 2020.
6. Forecasts do not incorporate additional capital investments in PPE.
7. Forecasts do not consider payments of dividends.
8. The exchange rate for 1 USD/AMD is considered to be AMD 485 and 1 year- 365 days.
9. NCA is capitalized net of VAT, and deferred VAT is recognized under CA.

### **Risks of**

1. Investment - the risk of not being able to organize the fundraising or to find the necessary amount of investment in the preliminary decided period.
2. Exchange rate fluctuation - the risk that 1 USD/AMD exchange rate will change dramatically compared to the rate we use in forecasts (although all the presented calculations are presented in USD)
3. Sales lower than projected - the risk that the occupancy rate of the hotel will be lower than projected one, and total sales will decrease.

4. Higher construction costs - the risk that suddenly the construction costs will increase, and the projected amount of money will not be enough.
5. Higher cost of finance - the risk that banks will agree to provide a loan with higher interest rates than mentioned in assumptions.
6. Force majeure acts - the risk of not being able to realize the project because of some circumstances which could not be anticipated or which could not be controlled.

All the mentioned risks have been addressed in the sensitivity analysis showing the impact on financial statements and financial ratios.

#### **4.9 Investment plan**

The table below presents all the capital expenditures needed for the construction and launch of the hotel. As it was already mentioned above, the land is going to be 1300 sqm, and the price for 1 sqm was checked from seller to be USD400. The prices for building and interior mending of 1 sqm were also checked with local construction firms and are presented below. In the capital requirements of rooms, restaurant, meeting rooms, etc., we have considered all the furnishing, electronics and other equipment needed. The furnishing and interior design will be in minimalist style which means in neutral colors and with minimum furniture needed.

The financing of capital requirements will be done by subordinate debt, share capital and loan from the bank. The purchase of land and the main costs of building construction will be financed by subordinate debt from shareholders, and the rest, including operating investment by loan.

##### *Investment plan*

	Unit measure	USD	Total	% of Total	Net of VAT	VAT
Land(sqm)	1,300	400	\$ 520,000	14.10%	\$ 433,333	\$ 86,667
Building (sqm)	4,000	371	\$ 1,484,536	40.27%	\$ 1,237,113	\$ 247,423
Air conditioning		19,588	\$ 19,588	0.53%	\$ 16,323	\$ 3,265
Interior mending (sqm)	4,000	394	\$ 1,574,845	42.72%	\$ 1,312,371	\$ 262,474
Rooms	60		\$ 45,258	1.23%	\$ 37,715	\$ 7,543
Restaurant		12,809	\$ 12,809	0.35%	\$ 10,674	\$ 2,135
Lobby-bar		4,124	\$ 4,124	0.11%	\$ 3,436	\$ 687
Reception		2,309	\$ 2,309	0.06%	\$ 1,924	\$ 385
Conference hall and Meeting rooms		5,010	\$ 5,010	0.14%	\$ 4,175	\$ 835
Administrative offices		12,784	\$ 15,876	0.43%	\$ 13,230	\$ 2,646
Laundry		2,474	\$ 2,474	0.07%	\$ 2,062	\$ 412
<b>Total</b>			<b>\$ 3,686,830</b>	<b>100.00%</b>	<b>\$ 3,072,358</b>	<b>\$ 614,472</b>

## 4.10 Financial plan

This part presents forecasted financial statements for 8 years of 2018-2025, NPV, IRR and payback period, as well as ratios and sensitivity analysis, based on business and operating risks.

### Income statement

	2018	2019	2020	2021	2022	2023	2024	2025
Sales Net of VAT	\$ -	\$ 718,696	\$ 827,373	\$ 907,286	\$ 1,024,634	\$ 1,054,940	\$ 1,086,155	\$ 1,196,498
Revenue from rooms	\$ -	\$ 498,833	\$ 573,324	\$ 590,523	\$ 671,390	\$ 691,531	\$ 712,277	\$ 773,052
Revenue from restaurant	\$ -	\$ 204,811	\$ 236,670	\$ 293,547	\$ 329,642	\$ 339,407	\$ 349,466	\$ 394,180
Revenue from conf and meeting	\$ -	\$ 5,773	\$ 8,070	\$ 11,812	\$ 12,166	\$ 12,531	\$ 12,907	\$ 17,726
Other sources	\$ -	\$ 9,278	\$ 9,309	\$ 11,403	\$ 11,436	\$ 11,470	\$ 11,504	\$ 11,540
VAT received	\$ -	\$ 143,739	\$ 165,475	\$ 181,457	\$ 204,927	\$ 210,988	\$ 217,231	\$ 239,300
COGS net of VAT	\$ -	\$ 248,108	\$ 267,546	\$ 296,955	\$ 318,703	\$ 324,692	\$ 330,861	\$ 356,193
Salaries (cleaning+receptionists)	\$ -	\$ 7,052	\$ 7,263	\$ 7,481	\$ 7,705	\$ 7,937	\$ 8,175	\$ 8,420
Food and Beverages	\$ -	\$ 92,165	\$ 106,502	\$ 132,096	\$ 148,339	\$ 152,733	\$ 157,260	\$ 177,381
Depreciation/Amortization	\$ -	\$ 116,550	\$ 116,550	\$ 116,550	\$ 116,550	\$ 116,550	\$ 116,550	\$ 116,550
Production Overheads	\$ -	\$ 28,748	\$ 33,095	\$ 36,291	\$ 40,985	\$ 42,198	\$ 43,446	\$ 47,860
Other costs	\$ -	\$ 3,593	\$ 4,137	\$ 4,536	\$ 5,123	\$ 5,275	\$ 5,431	\$ 5,982
VAT for COGS	\$ -	\$ 24,901	\$ 28,747	\$ 34,585	\$ 38,889	\$ 40,041	\$ 41,227	\$ 46,245
Gross Profit	\$ -	\$ 470,588	\$ 559,827	\$ 610,331	\$ 705,931	\$ 730,248	\$ 755,294	\$ 840,305
Gross margin		65.48%	67.66%	67.27%	68.90%	69.22%	69.54%	70.23%
General Admin Costs net of VAT	\$ 26,892	\$ 144,226	\$ 141,945	\$ 143,148	\$ 149,915	\$ 152,175	\$ 154,503	\$ 160,211
Admin salaries	\$ 1,552	\$ 6,206	\$ 6,392	\$ 6,584	\$ 6,782	\$ 6,985	\$ 7,195	\$ 7,411
Insurance	\$ -	\$ 12,829	\$ 12,829	\$ 12,829	\$ 12,829	\$ 12,829	\$ 12,829	\$ 12,829
Marketing & Advertising	\$ 8,591	\$ 15,464	\$ 8,591	\$ 6,873	\$ 6,873	\$ 6,873	\$ 6,873	\$ 6,873
Commissions to tour agencies	\$ -	\$ 14,965	\$ 17,200	\$ 17,716	\$ 20,142	\$ 20,746	\$ 21,368	\$ 23,192
Commissions to online sites	\$ -	\$ 9,977	\$ 11,466	\$ 11,810	\$ 13,428	\$ 13,831	\$ 14,246	\$ 15,461
Trade Fairs	\$ 2,500	\$ 5,833	\$ 4,167	\$ 4,167	\$ 4,167	\$ 4,167	\$ 4,167	\$ 4,167
Utility	\$ 3,696	\$ 12,321	\$ 14,184	\$ 15,553	\$ 17,565	\$ 18,085	\$ 18,620	\$ 20,511
Transportation	\$ 155	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515
Depreciation/Amortization	\$ -	\$ 49,950	\$ 49,950	\$ 49,950	\$ 49,950	\$ 49,950	\$ 49,950	\$ 49,950
Training costs	\$ 8,076	\$ 6,873	\$ 7,079	\$ 7,291	\$ 7,510	\$ 7,735	\$ 7,968	\$ 8,207
Office running costs	\$ 215	\$ 859	\$ 885	\$ 911	\$ 939	\$ 967	\$ 996	\$ 1,026
other expenses	\$ 2,108	\$ 8,434	\$ 8,687	\$ 8,947	\$ 9,216	\$ 9,492	\$ 9,777	\$ 10,070
VAT for G&A costs	\$ 5,068	\$ 17,614	\$ 17,121	\$ 17,323	\$ 18,637	\$ 19,048	\$ 19,472	\$ 20,570
PBIT	\$ (26,892)	\$ 326,362	\$ 417,882	\$ 467,182	\$ 556,016	\$ 578,072	\$ 600,791	\$ 680,093
Interest expense	\$ (264,000)	\$ (264,000)	\$ (233,200)	\$ (182,600)	\$ (124,300)	\$ (62,700)	\$ (11,000)	\$ -
PBT	\$ (290,892)	\$ 62,362	\$ 184,682	\$ 284,582	\$ 431,716	\$ 515,372	\$ 589,791	\$ 680,093
Loss from previous period	\$ -	\$ (290,892)	\$ (228,530)	\$ (43,848)	\$ -	\$ -	\$ -	\$ -
NI after tax adjusted for loss from previous period	\$ (290,892)	\$ (228,530)	\$ (43,848)	\$ 192,587	\$ 345,373	\$ 412,298	\$ 471,833	\$ 544,075
taxes (20%)	\$ -	\$ -	\$ -	\$ (48,147)	\$ (86,343)	\$ (103,074)	\$ (117,958)	\$ (136,019)
NI	\$ (290,892)	\$ 62,362	\$ 184,682	\$ 236,436	\$ 345,373	\$ 412,298	\$ 471,833	\$ 544,075
Profitability margin	-	8.7%	22.3%	26.1%	33.7%	39.1%	43.4%	45.5%

Income statement shows that starting from the first year of operations (2019) we are going to provide profits, and increase them year by year. Assumptions of calculations were provided in the Section 4.7.



## Cash Flow statement

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Cash flows from operating activities</b>								
Net Sales	\$ -	\$ 718,696	\$ 827,373	\$ 907,286	\$ 1,024,634	\$ 1,054,940	\$ 1,086,155	\$ 1,196,498
VAT received	\$ -	\$ 143,739	\$ 165,475	\$ 181,457	\$ 204,927	\$ 210,988	\$ 217,231	\$ 239,300
COGS	\$ -	\$ (131,558)	\$ (150,996)	\$ (180,405)	\$ (202,153)	\$ (208,142)	\$ (214,311)	\$ (239,643)
G&A expenses	\$ (26,375)	\$ (93,688)	\$ (91,962)	\$ (93,164)	\$ (99,930)	\$ (102,189)	\$ (104,516)	\$ (110,223)
VAT paid		\$ (42,515)	\$ (45,867)	\$ (51,908)	\$ (57,526)	\$ (59,089)	\$ (60,699)	\$ (66,815)
VAT paid to state	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (35,209)	\$ (156,532)	\$ (172,485)
changes in inventory	\$ (10,000)	\$ (300)	\$ (309)	\$ (318)	\$ (328)	\$ (338)	\$ (348)	\$ (358)
Interest paid	\$ (264,000)	\$ (264,000)	\$ (233,200)	\$ (182,600)	\$ (124,300)	\$ (62,700)	\$ (11,000)	
Income taxes paid	\$ -	\$ -	\$ -	\$ (48,147)	\$ (86,343)	\$ (103,074)	\$ (117,958)	\$ (136,019)
<b>Net Cash from operating activities</b>	\$ -300,375	\$ 330,374	\$ 470,513	\$ 532,201	\$ 658,981	\$ 695,187	\$ 638,022	\$ 710,255
<b>Cash flows from investing activities</b>								
Purchase of PPE	\$ -3,686,830	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net cash used in investing activities</b>	\$ -3,686,830	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Cash flow from financing activities</b>								
Subordinate debt (non-interest)	\$ 1,500,000							
Share capital	\$ 100,000							
Proceeds from long-term debt	\$ 2,400,000							
Principle repayment		\$ -280,000	\$ -460,000	\$ -530,000	\$ -560,000	\$ -470,000	\$ -100,000	
Repayment of subordinate loan					\$ -85,000	\$ -250,000	\$ -540,000	\$ -625,000
<b>Net cash used in financing activities</b>	\$ 4,000,000	\$ -280,000	\$ -460,000	\$ -530,000	\$ -645,000	\$ -720,000	\$ -640,000	\$ -625,000
<b>Net increase in cash and cash equivalents</b>	\$ 12,795	\$ 50,374	\$ 10,513	\$ 2,201	\$ 13,981	\$ (24,813)	\$ (1,978)	\$ 85,255
<b>Cash and cash equivalents at beginning of period</b>		\$ 12,795	\$ 63,169	\$ 73,682	\$ 75,883	\$ 89,864	\$ 65,050	\$ 63,072
<b>Cash and cash equivalents at end of period</b>	\$ 12,795	\$ 63,169	\$ 73,682	\$ 75,883	\$ 89,864	\$ 65,050	\$ 63,072	\$ 148,327

From the Cash Flow statement, we can mention payments of principal of loan from bank starting from 2019 and return of subordinate loan starting from 2022. All the payments are done by 2025, and as we can mention from the Cash Flow statement, the payback period is 7 years.

## Statement of financial position

	2018	2019	2020	2021	2022	2023	2024	2025
<b>NCA</b>	\$ 3,686,830	\$ 3,419,106	\$ 3,132,998	\$ 2,836,949	\$ 2,523,048	\$ 2,239,858	\$ 2,073,358	\$ 1,906,858
Land	\$ 433,333	\$ 433,333	\$ 433,333	\$ 433,333	\$ 433,333	\$ 433,333	\$ 433,333	\$ 433,333
Building	\$ 2,565,808	\$ 2,565,808	\$ 2,565,808	\$ 2,565,808	\$ 2,565,808	\$ 2,565,808	\$ 2,565,808	\$ 2,565,808
Accumulated depreciation	\$ -	\$ (153,948)	\$ (307,897)	\$ (461,845)	\$ (615,794)	\$ (769,742)	\$ (923,691)	\$ (1,077,639)
Equipment	\$ 15,464	\$ 15,464	\$ 15,464	\$ 15,464	\$ 15,464	\$ 15,464	\$ 15,464	\$ 15,464
Accumulated depreciation	\$ -	\$ (2,651)	\$ (5,302)	\$ (7,953)	\$ (10,604)	\$ (13,255)	\$ (15,906)	\$ (18,557)
Intangible assets	\$ 8,591	\$ 8,591	\$ 8,591	\$ 8,591	\$ 8,591	\$ 8,591	\$ 8,591	\$ 8,591
Amortization	\$ -	\$ (1,473)	\$ (2,946)	\$ (4,418)	\$ (5,891)	\$ (7,364)	\$ (8,837)	\$ (10,309)
Furniture	\$ 41,065	\$ 41,065	\$ 41,065	\$ 41,065	\$ 41,065	\$ 41,065	\$ 41,065	\$ 41,065
Accumulated depreciation	\$ -	\$ (7,040)	\$ (14,080)	\$ (21,119)	\$ (28,159)	\$ (35,199)	\$ (42,239)	\$ (49,278)
Computers and Monitors	\$ 8,097	\$ 8,097	\$ 8,097	\$ 8,097	\$ 8,097	\$ 8,097	\$ 8,097	\$ 8,097
Accumulated depreciation	\$ -	\$ (1,388)	\$ (2,776)	\$ (4,164)	\$ (5,552)	\$ (6,940)	\$ (8,328)	\$ (9,716)
Deferred VAT	\$ 614,472	\$ 513,248	\$ 393,640	\$ 264,091	\$ 116,690	\$ -	\$ -	\$ -
<b>CA</b>	\$ 22,795	\$ 73,469	\$ 84,291	\$ 86,810	\$ 101,119	\$ 76,643	\$ 75,013	\$ 160,626
Cash	\$ 12,795	\$ 63,169	\$ 73,682	\$ 75,883	\$ 89,864	\$ 65,050	\$ 63,072	\$ 148,327
Inventory	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299
<b>Total Assets</b>	\$ 3,709,625	\$ 3,492,575	\$ 3,217,290	\$ 2,923,759	\$ 2,624,167	\$ 2,316,501	\$ 2,148,371	\$ 2,067,484
<b>Equity</b>	\$ (190,892)	\$ (128,530)	\$ 56,152	\$ 292,587	\$ 637,960	\$ 1,050,258	\$ 1,522,090	\$ 2,066,165
Share capital	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
RE	\$ (290,892)	\$ (228,530)	\$ (43,848)	\$ 192,587	\$ 537,960	\$ 950,258	\$ 1,422,090	\$ 1,966,165
<b>NCL</b>	\$ 3,900,000	\$ 3,620,000	\$ 3,160,000	\$ 2,630,000	\$ 1,985,000	\$ 1,265,000	\$ 625,000	\$ -
Long-term loan	\$ 2,400,000	\$ 2,120,000	\$ 1,660,000	\$ 1,130,000	\$ 570,000	\$ 100,000	\$ -	\$ -
Subordinate debt	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,415,000	\$ 1,165,000	\$ 625,000	\$ -
<b>CL</b>	\$ 517	\$ 1,105	\$ 1,138	\$ 1,172	\$ 1,207	\$ 1,243	\$ 1,281	\$ 1,319
Payables	\$ 517	\$ 1,105	\$ 1,138	\$ 1,172	\$ 1,207	\$ 1,243	\$ 1,281	\$ 1,319
<b>Total Equity and Liability</b>	\$ 3,709,625	\$ 3,492,575	\$ 3,217,290	\$ 2,923,759	\$ 2,624,167	\$ 2,316,501	\$ 2,148,371	\$ 2,067,484

## NPV, IRR

	2018	2019	2020	2021	2022	2023	2024	2025
	0	1	2	3	4	5	6	7
EBIT		\$ 326,362	\$ 417,882	\$ 467,182	\$ 556,016	\$ 578,072	\$ 600,791	\$ 680,093
Tax Paid			\$ (65,272.43)	\$ (83,576.34)	\$ (93,436.50)	\$ (111,203.17)	\$ (115,614.49)	\$ (120,158.15)
EBIT after tax		\$ 326,362	\$ 352,609	\$ 383,606	\$ 462,579	\$ 466,869	\$ 485,176	\$ 559,935
DA		166,500	166,500	166,500	166,500	166,500	166,500	166,500
EBIT after tax + DA		\$ 492,862	\$ 519,109	\$ 550,106	\$ 629,079	\$ 633,369	\$ 651,676	\$ 726,435
Change in WC		\$ 288	\$ (276)	\$ (284)	\$ (293)	\$ (301)	\$ (310)	\$ (320)
Investments NCA	\$ (4,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Free Cash Flow</b>	\$ (4,000,000)	\$ 493,150	\$ 518,833	\$ 549,822	\$ 628,787	\$ 633,068	\$ 651,366	\$ 726,115
<b>Terminal value</b>								\$ 5,342,135
<b>Total</b>	\$ (4,000,000)	\$ 493,150	\$ 518,833	\$ 549,822	\$ 628,787	\$ 633,068	\$ 651,366	\$ 6,068,250
Discount rate	17.00%							
g (growth rate)	3%							
<b>PV of future cash flows</b>	\$ (4,000,000)	\$ 421,496	\$ 379,015	\$ 343,293	\$ 335,552	\$ 288,749	\$ 253,928	\$ 2,021,913
<b>NPV</b>	\$ 43,945							
<b>IRR</b>	17.25%							

As it is shown, with 17% discount rate and 3% growth rate the NPV of this business is USD 43,945 and the IRR is 17.25%.

#### **4.11 Sensitivity analysis**

This part presents the sensitivity analysis which incorporate operational risks as well as risk of increasing finance cost. The analysis consider 6 different scenarios, including the Base case scenario. Scenario 1 considers the case, when the Revenue of the hotel decreases by 5%, because of decrease in occupancy rates. Scenario 2 presents the case when the COGS and G&A costs increase by 5%. Scenario 3 is the combination of two previous scenarios - Revenue decreases by 5% and Costs increase by the same percentage. Scenario 4 considers the risk of higher finance cost, and is applied for the case when the loan from the bank is taken with 13% interest rate instead of 11%. Finally, Scenario 5 is the optimistic one, as it considers the case when the Revenue of the hotel increases due to 5% increase in occupancy rates. The table below presents the NPV and IRR comparison for all the mentioned scenarios.

*NPV and IRR for all the Scenarios*

Scenarios	NPV	IRR
Base case scenario	\$ 43,945	17.25%
Scenario 1	\$ (363,166)	14.87%
Scenario 2	\$ (70,976)	16.59%
Scenario 3	\$ (466,184)	14.24%
Scenario 4	\$ 37,586	17.21%
Scenario 5	\$ 437,495	19.44%

As we can see, in case of the first four scenarios, especially in Scenario 3 the NPV and IRR indicators deteriorate compared to Base case scenario, and only in Scenario 5 we have amelioration. The analysis revealed also that only in case of Base case scenario and Scenario 5 the payback period is 6-7 years, otherwise it gets longer.

The Base case ratio analysis for 7 years, as well as the whole Sensitivity analysis table comparing ratios of all 5 scenarios with the Base case scenario are presented in Exhibits 12 and 13.

## Exhibits

Exhibit 1 *Incoming tourists by country of origin*

Incoming Tourists by Country of Origin					
	2012	2013	2014	2015	2016
Russia	17.20%	21.80%	23.00%	21.50%	19.20%
Georgia	2.60%	2.60%	2.90%	2.50%	3.00%
Iran	7.40%	5.90%	7.10%	10.50%	18.20%
US	13.10%	12.30%	12.70%	15.40%	10.30%
EU	39.40%	37.20%	33.90%	26.90%	26.70%
Other	20.30%	20.20%	20.40%	23.20%	22.60%

Source: NSS RA

Exhibit 2 *Incoming tourists by purpose of visit (%)*

Incoming Tourists by Purpose of Visit					
	2012	2013	2014	2015	2016
Leisure	21%	27%	35%	48%	51%
Business	29%	33%	29%	34%	32%
Other purpose	49%	41%	36%	18%	17%

Source: NSS RA

Exhibit 3 *Number and types of rooms in hotels in Yerevan*

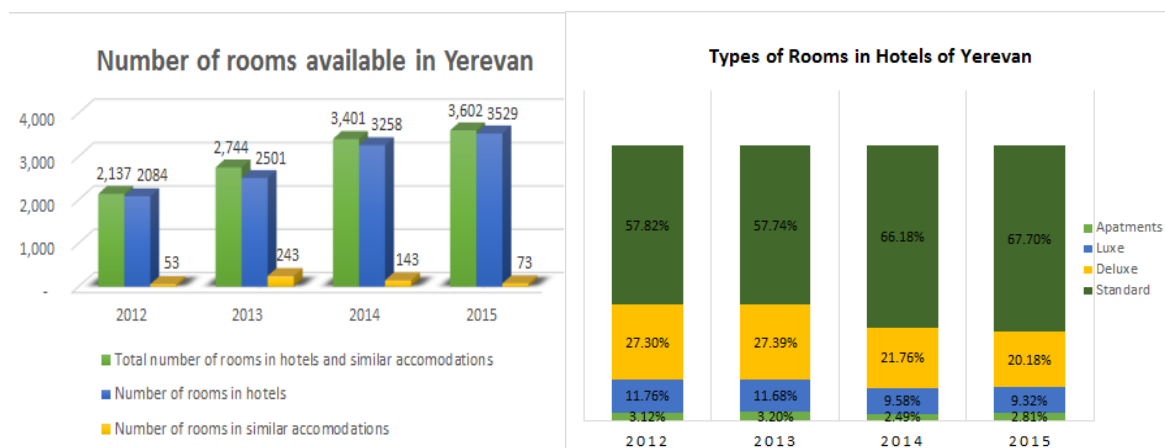
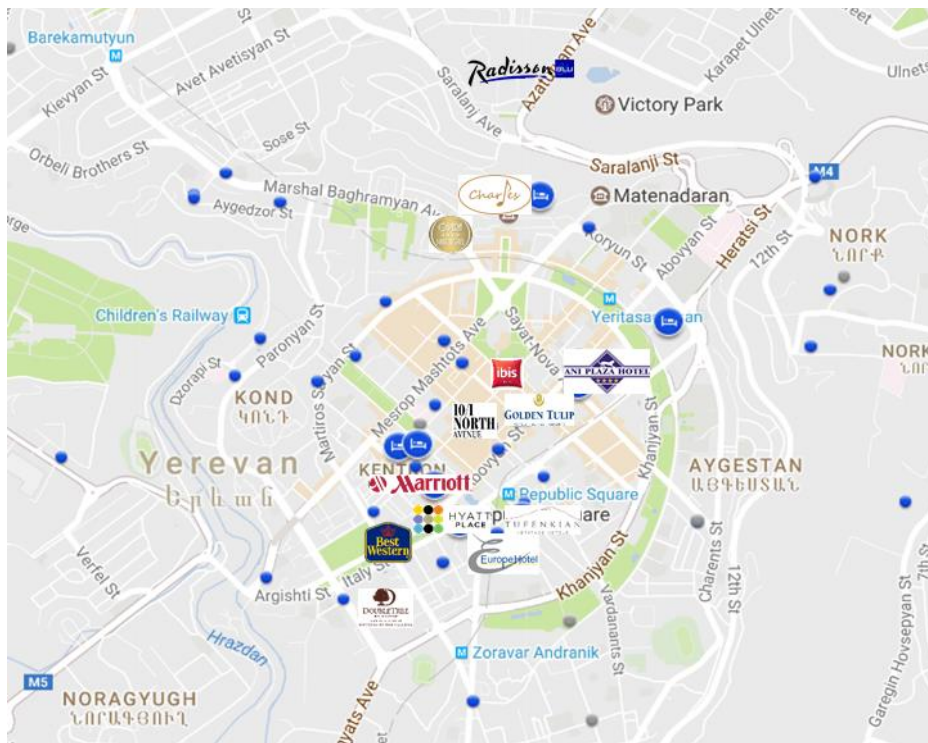


Exhibit 4 *Interview questions with hotel managers*

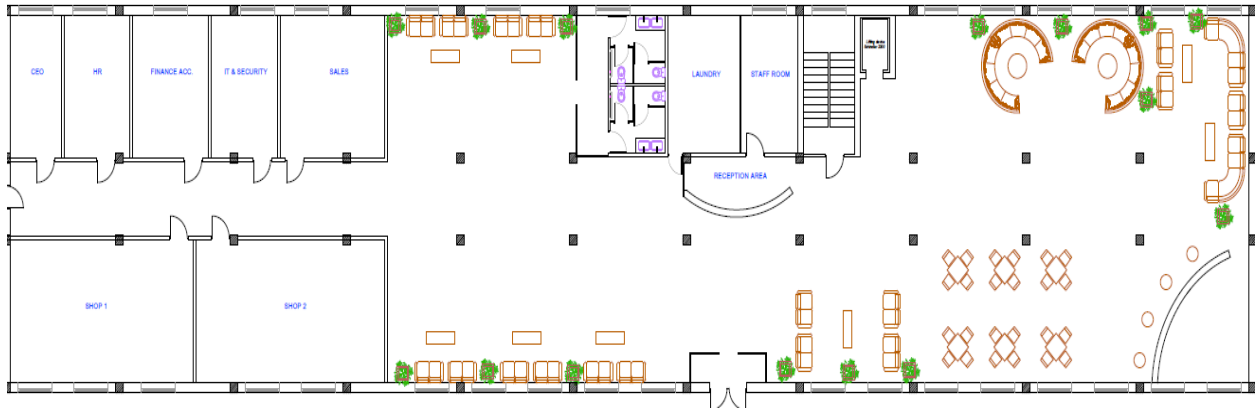
1. How many rooms are there in the hotel?
2. How many types of rooms does the hotel have and the number of rooms from each type?
3. What are the prices for low and high seasons?
4. What facilities does the hotel provide?
5. Is the breakfast included or excluded?
6. How much does the breakfast cost?
7. What are the occupancy rates during different seasons?

Exhibit 5 *Map of Yerevan with locations of hotels*



## Exhibit 6 *Hotel's floors plan*

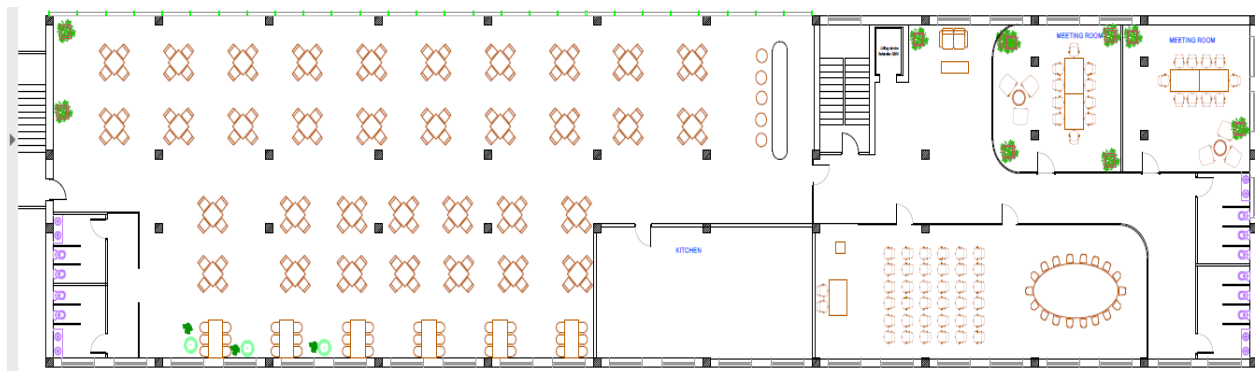
### 1-st Floor



### 2-nd and 3-rd Floors



### 4-th Floor



### Exhibit 7 Marketing Expenses Breakdown

	2018	2019	2020	2021	2022	2023	2024	2025
Digital Marketing (Web page, presence in reservation systems)	\$ 2,500	\$ 9,977	\$ 11,466	\$ 11,810	\$ 13,428	\$ 13,831	\$ 14,246	\$ 15,461
Print ads, Flyers, Advertising	\$ 6,091	\$ 12,371	\$ 6,873	\$ 5,498	\$ 5,498	\$ 5,498	\$ 5,498	\$ 5,498
Programs for tour operators	\$ -	\$ 3,093	\$ 1,718	\$ 1,375	\$ 1,375	\$ 1,375	\$ 1,375	\$ 1,375
Commissions to tour agencies	\$ -	\$ 14,965	\$ 17,200	\$ 17,716	\$ 20,142	\$ 20,746	\$ 21,368	\$ 23,192
Trade Fairs	\$ 2,500	\$ 5,833	\$ 4,167	\$ 4,167	\$ 4,167	\$ 4,167	\$ 4,167	\$ 4,167
<b>Total Marketing &amp; Advertising Expenses</b>	<b>\$ 11,091</b>	<b>\$ 46,239</b>	<b>\$ 41,424</b>	<b>\$ 40,566</b>	<b>\$ 44,609</b>	<b>\$ 45,616</b>	<b>\$ 46,653</b>	<b>\$ 49,692</b>

### Exhibit 8 Salaries

#### Monthly

#### Yearly (2019-2025)

Position	Number	2019	Position	Number	2019	2020	2021	2022	2023	2024	2025
CEO	1	\$ 825	CEO	1	\$ 9,897	\$ 10,194	\$ 10,500	\$ 10,815	\$ 11,139	\$ 11,473	\$ 11,817
Assistant to GD	1	\$ 722	Assistant to GD	1	\$ 8,660	\$ 8,919.59	\$ 9,187	\$ 9,463	\$ 9,747	\$ 10,039	\$ 10,340
HR	1	\$ 515	HR	1	\$ 6,186	\$ 6,371	\$ 6,562	\$ 6,759	\$ 6,962	\$ 7,171	\$ 7,386
Financial director	1	\$ 680	Financial director	1	\$ 8,165	\$ 8,410	\$ 8,662	\$ 8,922	\$ 9,190	\$ 9,465	\$ 9,749
Accountant	1	\$ 412	Accountant	1	\$ 4,948	\$ 5,097	\$ 5,250	\$ 5,407	\$ 5,570	\$ 5,737	\$ 5,909
Cashier	2	\$ 619	Cashier	2	\$ 7,423	\$ 7,645	\$ 7,875	\$ 8,111	\$ 8,354	\$ 8,605	\$ 8,863
Maintanace Manager	1	\$ 412	Maintanace Manager	1	\$ 4,948	\$ 5,097	\$ 5,250	\$ 5,407	\$ 5,570	\$ 5,737	\$ 5,909
Front Office Manager	1	\$ 412	Front Office Manager	1	\$ 4,948	\$ 5,097	\$ 5,250	\$ 5,407	\$ 5,570	\$ 5,737	\$ 5,909
Sales & Marketing Manager	1	\$ 577	Sales & Marketing Manager	1	\$ 6,928	\$ 7,136	\$ 7,350	\$ 7,570	\$ 7,797	\$ 8,031	\$ 8,272
IT professional	1	\$ 515	IT professional	1	\$ 6,186	\$ 6,371	\$ 6,562	\$ 6,759	\$ 6,962	\$ 7,171	\$ 7,386
Reservation Assistant	1	\$ 309	Reservation Assistant	1	\$ 3,711	\$ 3,823	\$ 3,937	\$ 4,055	\$ 4,177	\$ 4,302	\$ 4,432
Receptionists	3	\$ 928	Receptionists	3	\$ 11,134	\$ 11,468	\$ 11,812	\$ 12,166	\$ 12,531	\$ 12,907	\$ 13,295
Parking Man	1	\$ 206	Parking Man	1	\$ 2,474	\$ 2,548	\$ 2,625	\$ 2,704	\$ 2,785	\$ 2,868	\$ 2,954
Cleaning staff	5	\$ 1,031	Cleaning staff	5	\$ 12,371	\$ 12,742	\$ 13,125	\$ 13,518	\$ 13,924	\$ 14,342	\$ 14,772
Technicians	2	\$ 412	Technicians	2	\$ 4,948	\$ 5,097	\$ 5,250	\$ 5,407	\$ 5,570	\$ 5,737	\$ 5,909
Restaurant Manager	1	\$ 619	Restaurant Manager	1	\$ 7,423	\$ 7,645	\$ 7,875	\$ 8,111	\$ 8,354	\$ 8,605	\$ 8,863
Chef	1	\$ 619	Chef	1	\$ 7,423	\$ 7,645	\$ 7,875	\$ 8,111	\$ 8,354	\$ 8,605	\$ 8,863
Chef assistants	3	\$ 928	Chef assistants	3	\$ 11,134	\$ 11,468	\$ 11,812	\$ 12,166	\$ 12,531	\$ 12,907	\$ 13,295
Waiters for restaurant and Lobby	4	\$ 1,072	Waiters for restaurant and Lobby	4	\$ 12,866	\$ 13,252	\$ 13,650	\$ 14,059	\$ 14,481	\$ 14,915	\$ 15,363
Barmen for restaurant and Lobby	2	\$ 619	Barmen for restaurant and Lobby	2	\$ 7,423	\$ 7,645	\$ 7,875	\$ 8,111	\$ 8,354	\$ 8,605	\$ 8,863
Musicians	2	\$ 825	Musicians	2	\$ 9,897	\$ 10,194	\$ 10,500	\$ 10,815	\$ 11,139	\$ 11,473	\$ 11,817
<b>Total</b>	<b>36</b>	<b>\$ 13,258</b>	<b>Total</b>	<b>36</b>	<b>\$ 159,093</b>	<b>\$ 163,866</b>	<b>\$ 168,782</b>	<b>\$ 173,845</b>	<b>\$ 179,060</b>	<b>\$ 184,432</b>	<b>\$ 189,965</b>

### Exhibit 9 Operational data

	2018	2019	2020	2021	2022	2023	2024	2025
Occupation of single rooms	0%	50%	55%	55%	60%	60%	60%	62%
Occupation of double rooms	0%	42%	47%	47%	52%	52%	52%	55%
Price for single room	\$ -	\$ 55	\$ 57	\$ 58	\$ 60	\$ 62	\$ 64	\$ 66
Price for double room	\$ -	\$ 65	\$ 67	\$ 69	\$ 71	\$ 73	\$ 75	\$ 78
Price for breakfast	\$ -	\$ 5	\$ 5	\$ 5	\$ 6	\$ 6	\$ 6	\$ 6
Price for lunch	\$ -	\$ 6	\$ 6	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7
Price for dinner	\$ -	\$ 15	\$ 16	\$ 16	\$ 17	\$ 17	\$ 18	\$ 18
Number of guests for lunch	0	10	15	15	20	20	20	23
Number of outside guests for dinner	0	10	10	20	20	20	20	23
Price for meeting rooms	\$ -	\$ 41	\$ 42	\$ 44	\$ 45	\$ 46	\$ 48	\$ 49
Price for conference hall	\$ -	\$ 124	\$ 127	\$ 131	\$ 135	\$ 139	\$ 143	\$ 148
Meeting rooms reserved times/month	0	8	10	12	12	12	12	15
Conference hall reserved times/month	0	2	3	5	5	5	5	7
Rent price for shops per month	\$ -	\$ 412	\$ 412	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515
Rent price for tour agency desk per month	\$ -	\$ 103	\$ 106	\$ 109	\$ 113	\$ 116	\$ 120	\$ 123

Exhibit 10 *Depreciation/Amortization*

	Value included VAT	Dep/Amort base (years)	Dep/Amort for 1 year	Value Net of VAT	VAT
Cost of building	\$ 3,078,969	20	\$ 153,948	\$ 2,565,808	\$ 513,162
Cost of equipment	\$ 18,557	7	\$ 2,651	\$ 15,464	\$ 3,093
Cost of non-tangible	\$ 10,309	7	\$ 1,473	\$ 8,591	\$ 1,718
Cost of furnishing	\$ 49,278	7	\$ 7,040	\$ 41,065	\$ 8,213
Computers and Monitors	\$ 9,716	7	\$ 1,388	\$ 8,097	\$ 1,619
Total	\$ 3,166,830		\$ 166,500	\$ 2,639,025	\$ 527,805

Exhibit 11 *Loan amortization*

	Op. balance	Interests	Principal payment	Total payment
2018	\$ 2,400,000	\$ 264,000		\$ 264,000
2019	\$ 2,400,000	\$ 264,000	\$ 280,000	\$ 544,000
2020	\$ 2,120,000	\$ 233,200	\$ 460,000	\$ 693,200
2021	\$ 1,660,000	\$ 182,600	\$ 530,000	\$ 712,600
2022	\$ 1,130,000	\$ 124,300	\$ 560,000	\$ 684,300
2023	\$ 570,000	\$ 62,700	\$ 470,000	\$ 532,700
2024	\$ 100,000	\$ 11,000	\$ 100,000	\$ 111,000
Total		\$ 1,141,800	\$ 2,400,000	\$ 3,541,800

Exhibit 12 *Ratios for Base Case Scenario*

Ratios	2019	2020	2021	2022	2023	2024	2025
ROA	1,79%	5,74%	9,73%	16,45%	22,25%	27,45%	32,89%
ROI	8,16%	10,45%	11,68%	13,90%	14,45%	15,02%	17,00%
Financial gearing	103,68%	98,25%	89,99%	75,68%	54,64%	29,11%	-
Interest coverage	1,24	1,79	2,56	4,47	9,22	54,62	-
Current ratio	66,50	74,07	74,06	83,76	61,64	58,57	121,76
Quick ratio	57,18	64,75	64,74	74,44	52,31	49,25	112,44
Gross profit Margin	65,48%	67,66%	67,27%	68,90%	69,22%	69,54%	70,23%
Operating profit margin	45,41%	50,51%	51,49%	54,26%	54,80%	55,31%	56,84%
Operating expenses to sal	20,07%	17,16%	15,78%	14,63%	14,43%	14,22%	13,39%
Net profit margin	8,68%	22,32%	26,06%	33,71%	39,08%	43,44%	45,47%



Exhibit 13 Sensitivity analysis

Ratios	Scenarios	2019	2020	2021	2022	2023	2024	2025
ROI	Base case scenario	8,16%	10,45%	11,68%	13,90%	14,45%	15,02%	17,00%
	Scenario 1	6,51%	8,73%	9,86%	12,02%	12,52%	13,03%	14,92%
	Scenario 2	7,85%	10,09%	11,25%	13,40%	13,91%	14,43%	16,33%
	Scenario 3	6,23%	8,41%	9,48%	11,58%	12,03%	12,50%	14,31%
	Scenario 4	8,15%	10,43%	11,65%	13,87%	14,42%	14,99%	16,96%
	Scenario 5	9,79%	12,13%	13,44%	15,72%	16,33%	16,95%	19,00%
ROA	Base case scenario	1,79%	5,74%	9,73%	16,45%	22,25%	27,45%	32,89%
	Scenario 1	-0,11%	3,77%	7,69%	14,87%	21,59%	28,39%	36,18%
	Scenario 2	1,44%	5,34%	9,26%	16,01%	21,98%	27,50%	33,37%
	Scenario 3	-0,43%	3,38%	7,22%	14,41%	21,29%	28,47%	36,93%
	Scenario 4	0,41%	4,60%	8,99%	16,55%	23,40%	29,66%	35,79%
	Scenario 5	3,59%	7,56%	11,50%	17,74%	22,73%	26,78%	30,72%
Interest coverage	Base case scenario	1,24	1,79	2,56	4,47	9,22	54,62	-
	Scenario 1	0,99	1,50	2,16	3,87	7,99	47,38	-
	Scenario 2	1,19	1,73	2,46	4,31	8,87	52,48	-
	Scenario 3	0,94	1,44	2,08	3,73	7,68	45,45	-
	Scenario 4	1,04	1,51	2,16	3,78	7,79	46,13	-
	Scenario 5	1,48	2,08	2,94	5,06	10,42	61,64	-
Financial gearing	Base case scenario	103,68%	98,25%	89,99%	75,68%	54,64%	29,11%	-
	Scenario 1	105,68%	102,55%	95,40%	82,81%	62,39%	34,80%	-
	Scenario 2	104,11%	99,14%	91,14%	77,23%	56,34%	30,37%	-
	Scenario 3	106,08%	103,41%	96,61%	84,47%	64,38%	36,42%	-
	Scenario 4	106,62%	102,71%	94,48%	80,52%	58,91%	31,62%	-
	Scenario 5	101,78%	94,87%	85,25%	69,81%	48,73%	25,11%	-
Gross Margin	Base case scenario	65,48%	67,66%	67,27%	68,90%	69,22%	69,54%	70,23%
	Scenario 1	62,64%	65,38%	65,11%	67,10%	67,46%	67,80%	68,67%
	Scenario 2	64,55%	66,73%	66,24%	67,88%	68,21%	68,52%	69,19%
	Scenario 3	61,68%	64,43%	64,07%	66,08%	66,44%	66,78%	67,64%
	Scenario 4	65,46%	67,64%	67,24%	68,87%	69,19%	69,51%	70,19%
	Scenario 5	67,73%	69,50%	68,99%	70,34%	70,64%	70,94%	71,47%
Net Profit Margin	Base case scenario	8,68%	22,32%	26,06%	33,71%	39,08%	43,44%	45,47%
	Scenario 1	-0,57%	15,55%	25,00%	30,50%	36,39%	41,16%	43,51%
	Scenario 2	6,97%	20,60%	25,19%	32,18%	37,48%	41,76%	43,72%
	Scenario 3	-2,30%	13,83%	23,94%	29,13%	34,77%	39,45%	41,74%
	Scenario 4	1,95%	17,14%	26,15%	31,89%	38,18%	43,26%	45,43%
	Scenario 5	16,04%	25,84%	28,65%	36,31%	41,27%	45,29%	47,05%