

# Internal analysis melia hotels

Business



The morgan hotel group Internal analysis At Morgans Hotel Group, we are the global leader and Innovator of the lifestyle hospitality sector, dedicated to building a differentiated brand portfolio and establishing our properties in 24 hour urban and select resort markets. We create a vibe that encourages our guests, who we call the Creative Class, to live every moment more intensely. Morgans Hotel Group is immersive, transformative and deeply engaging; embracing irony and style, elegance and luxury, with strong and daring vision.

We bring together the creative power of many - designers, artists, musicians - to bend the rules, stretch the realm of possibility and constantly push the boundaries of what a hotel can be. We lead, where others follow.

DELANO BRAND Delano is the ultimate oasis of sensuality and soul, where sophistication and ease seamlessly blend with timeless design. Effortlessly chic and flirtatious, yet restrained In its simplicity, Delano is proof that the new rules of elegance are crisp, clean, and modern, without fuss or complexity. There is a world outside Delano, but there is nothing there you need.

Delano is in South Beach and Marrakech, and is coming soon to Las Vegas and Moscow. Delano is our one-of-a-kind luxury brand, which offers a luxury atmosphere with unexpected and unique touches of individuality. Delano has a modern style of service that is designed to deliver on the needs of the most discerning travelers.

Delano's brand values are sophisticated, casual chic, effortless and exclusive. MONDRIAN BRAND? Mondrian is a place to see-and-be-seen. Here we believe

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in the perfect moment, where confidence reigns and perpetual possibility awaits.

Intense, current, and playful, Mondrian is bold and brave, offering instant excitement the minute the door swings open – seductive and striking, it's where glamour and fantasy prevail. Mondrian is in Los Angeles, New York City and South Beach, and is coming soon to London, Doha, Baha Mar in the Bahamas and Istanbul. The Mondrian brand offers a stimulating atmosphere and energy that fosters social engagement.

The service level is designed to be engaged and highly personal and the brand offers a dynamic nightlife which exudes attitude and ambience.

Mondrian's brand values are confident, engaged and trendsetting. HUDSON BRANDO Hudson is filled with exuberance and energy, social interaction and passion for life. It all begins in the lobby, the heart and soul of the hotel, where intriguing lives intersect, genuine conversations spark, and adventure and experimentation begin. Spirited and casual, Hudson is the perfect urban playground, where youthful curiosity hangs with eclectic enchantment, and around every corner lies another opportunity to explore.

Hudson is currently in New York City, with another coming to London in 2015.

Hudson is our urban gateway brand which cutting-edge style that is accessible, edgy and young at heart. Its service level is friendly and casual and the lobbies of Hudson are the social hub. Hudson's brand values are connected, collaborative and intriguing. ORIGINALS BRANDO Originals are a

family of individual hotels that shun the status quo, each distinctive and daring, creating a surreal fantasy where anything is possible.

Stimulating, charismatic and iconic, Originals bring vision and style together with a spirit filled with magic and illusion. Sanderson and St Martins Lane in London, Morgans and Royalton in New York, Clift in San Francisco and Shore Club in South Beach are all Originals.

We also have a portfolio of original brands, which currently include Sanderson, St Martins Lane, Royalton, Morgans, Clift, Ames and Shore Club. Each of these hotel brands is unique, offering an atmosphere filled with designs from an eclectic mix of designers, artists and influencers and our signature personalized service.

**VISION** When Morgans opened in New York in 1984, we embarked on a Journey to ‘ continually challenge tradition and forever change the perception of hotels in an innovative and constantly evolving style. Now is the time for us to be daring and innovative as we embrace a greener lifestyle and continue to set precedents for our industry. Gone are the days of a typecast granola green.

Our vision is a vibrant, fresh, live green – a truly glamorous green’.

**Objectives** The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements.

To accomplish these objectives, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps

designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

Unlike many hotel companies, our sales managers are trained to sell the experience, not simply the rate.

By branding the “experience,” we showcase the kind of creativity that happens inside our hotels and prove that our guests come to us for much more than just a room or a bed. Our objective is to create differentiation by selling an “experience” and brand. Goals Our goal is to build a global portfolio of highly-attractive lifestyle boutique hotels that easures up to the expectations of our guests.

By leveraging our exceptional brands, exceptional guest experiences, we are committed to bringing the best of our heritage into a new era for Morgans. To achieve this goal, we made changes in nearly every area of our business during 2011. While our transformation plans are far from complete, we have made significant progress solidifying our foundation and putting the Company on the right path for the future.

Divest real estate assets to fund our expansion and to improve our risk profile by reducing debt and preferred securities.

The goal of this strategy is to dramatically improve the cash flow and profit potential of the Company, thereby creating new opportunities for maximizing value for shareholders. The last goal is to maximize the companies value and appeal. Corporate strategy Our corporate strategy is to achieve growth by leveraging our management experience and portfolio of renowned hotel and food and beverage brands for expansion into both new and existing markets and by targeting strategic internal growth opportunities.

We believe that by investing in people, platforms, hotel properties and appropriate management opportunities, we will strengthen our position as a leader in lifestyle hospitality management.

As part of our strategy, we recently shifted towards a more “ asset light” business model in 2011 by selling five hotels we had previously owned or partially owned while retaining management pursuant to long-term management agreements. In late 2012, we began a sales process for Delano South Beach and intend to use the proceeds from any sale for debt reduction, growth and general working capital purposes.

We may engage in further asset sales, depending on market opportunities and other factors. In addition, consistent with our growing focus on management opportunities, we continue to pursue and execute new management contracts, with the goal of strengthening our profit margins by maximizing revenue, increasing our market share and managing costs. To pursue this management-focused growth strategy, we may continue to make additional investments to obtain new management agreements in the form of key money, equity investments and cash flow guarantees.

Also, beginning in 2011, with the arrival of our new management team, we focused on our talent base and operating and service platforms.

As a result, we believe we now have the right key personnel in place and are developing the right platforms to support future growth. In 2012, we focused on the final stage of our property investment program, which involved upgrading certain of our properties and repositioning some of our hospitality offerings. An important component of this investment program includes on driving higher beverage to food ratios and re-igniting the buzz around our nightlife and lobby scenes.

While these upgrades and repositioning efforts impacted the financial performance of our hotels in the short-term, we believe they are an essential step to ensure our hotel properties and food and beverage offerings continue to meet the expectations of our guests and the high standards of our brands. Unique Brands. Unlike traditional franchised or large brand-managed hotels, we believe our portfolio of boutique hotel brands provides guests with a distinctive lodging experience.

Each of our Morgans Hotel Group branded hotels has a personality specifically tailored to reflect the local market environment and features a modern, sophisticated design that includes critically acclaimed public spaces, popular “destination” bars and restaurants and highly personalized service. Significant media attention has been devoted to our hotels, which we believe is the result of their distinctive nature, renowned design, dynamic and exciting atmosphere, celebrity guests and high-profile events.

We believe that the Morgans Hotel Group brand and each of our individual property brands are synonymous with style, innovation and service. We believe that this combination of lodging and social experiences, and association with our brands, increases our occupancy levels and pricing power. Many of our brands, including hotel brands such as Delano, Mondrian and Hudson, may be extended to other hotels, restaurants and bars in our existing and new markets. Flexible Business Model.

We intend to be flexible with respect to real estate requirements and transaction structures as we grow our business. We believe our flexibility with respect to the physical configuration of buildings gives us more options to grow in any given market as compared to many of our competitors who require very particular specifications so that their hotels will all look the same. We will pursue attractive management agreements, Joint ventures, acquisitions and other opportunities as they arise.

As we pursue these opportunities, we will place significant emphasis on re-flag and pure management opportunities and, where equity investment, key money or cash flow guarantees are required, on securing long-term management agreements and a meaningful percentage of any equity growth or a significant total dollar return on investment. The acquisition and finance markets and the specifics of any particular deal will influence each transaction's structure. We believe our flexibility should allow us greater access to strategically important hotels and other opportunities.

Additionally, we will also consider pursuing licensing agreements in select markets with the right partners. For example, in August 2012, e signed a



license agreement with MGM for a Delano at Mandalay Bay in Las Vegas following renovation and conversion of MGM's THEhotel. Delano Las Vegas will be managed by MGM pursuant to a 10-year licensing agreement, with two 5-year extensions at our option, subject to performance thresholds. partners, we will continue to pursue targeted projects throughout our portfolio of hotels that we believe will increase our appeal to potential guests and improve the revenue generation potential at our properties.

In March 2012, we completed our renovation at Delano South Beach which began in the third quarter of 2011. The renovations included the re-opening of a newly conceived restaurant, Bianca, improved public areas, such as the Rose Bar and pool and beach bars, a new nightclub, FDR, upgraded exclusive bungalows and suites, and 1, 200 square feet of additional meeting space.

At Hudson, we spent most of 2012 renovating all the guestrooms, which was completed in September 2012. We also converted 32 single room dwelling ("SRO") units into guest rooms.

Twenty-six SRO units were converted in 2012 and 6 were converted in January 2013, at an estimated cost of approximately \$1 50, 000 per room, bringing the total number of rooms at Hudson to 866 as of January 31, 2013. Additionally, in February 2013, we opened a new restaurant at Hudson, Hudson Commons, which is a modern-day beer hall and burger joint featuring a wide selection of local craft beers, inventive preparations of classic American fare, and soda shop-inspired specialty cocktails.

In addition to renovations at our Owned Hotels, the owners of several Managed Hotels and Joint Venture Hotels have invested funds for <https://assignbuster.com/internal-analysis-melia-hotels/>

renovations and repositionings during 2012. In Los Angeles, Mondrian's SkyBar, the Company's iconic outdoor bar, and the pool, were closed in early 2012 for renovations which were completed in May 2012.

Sanderson underwent significant air conditioner repairs and replacements and certain technology upgrades in preparation for the 2012 Summer Olympics. This renovation work was completed in May 2012.

In New York, the restaurant at Morgans was closed beginning in the first quarter of 2012. We expect to reopen this venue as a newly re-concepted restaurant and lounge in the first half of 2013. At Mondrian SoHo, in August 2012, we opened a new penthouse bar and lounge and re-launched a new restaurant, Isola Trattoria & Crudo Bar.

External Growth. We believe that our existing brand portfolio has considerable development potential. Many of our brands may be extended to other hotels, restaurants and bars in our existing and new markets.

Similarly, we believe our brand portfolio improves our ability to secure new management agreements with third parties. As the economy and financial markets continue to show improvement, we believe we are poised for external growth, both domestically and internationally, as we continue to expand our hotel, restaurant and bar brands.

As a result of our growth and expansion efforts, we signed several new management agreements in 2012, including Delano Marrakech, Hudson London at Great Scotland Yard and Delano Moscow, and one license

agreement with MGM for Delano Las pipeline of prospective deals continues to remain strong.

We now have signed management agreements for seven hotels and a license agreement for another, that are scheduled to open over the next three years, with three of these hotels scheduled to open in the next fifteen months. Five of these hotels already have financing for construction or redevelopment, although there can be no assurance that any or all of these hotel projects will be completed as scheduled or at all. Given the continuing uncertainty in the global economic environment, these and other projects may not be able to obtain adequate project financing in a timely manner or at all.

If adequate project financing is not obtained, these projects may need to be limited in scope, deferred or cancelled altogether.

**Target Markets.** We base our decisions to enter new markets on a number of criteria, with a focus on markets that attract affluent travelers who value a distinctive and sophisticated atmosphere and outstanding service.

Specifically, we target key gateway destinations that attract both domestic and foreign business and leisure travelers, as well as select resort markets.

Consistent with our prior expansion activities, we will continue to seek growth primarily in markets with multiple demand drivers and high barriers to entry, including major North American metropolitan markets with vibrant urban locations, select resort locations, key European destinations that we believe offer a similar customer base as our established United States and

United Kingdom markets, and select locations in the Middle East, Asia and South America.

However, we do support OTK playing a role in the process.

Our slate gives them a seat at the table proportional with their ownership. Prior to OTK launching a proxy contest, we had offered them a second seat on the board, which they rejected. Our board and management have created a high growth, high cash flow, asset-light business model, leveraging our strong brand.

The expressions of interest received to date substantially support our belief that our business model will be highly attractive to potential acquirers, and as a result, we believe we could achieve a strong multiple for our shareholders in the sales process. Successfully executed its strategy to transition Morgans into an “ asset-light” platform to accelerate growth in fees and profitability; Successfully developed a robust pipeline of potential attractive new hotel management deals that we expect will dramatically grow the Company; Created a high-return business model with significant profit leverage, allowing us to scale with limited capital investments; Proposed a deleveraging transaction that would significantly improve a burdensome and complex balance sheet and capital structure; and Delivered recent positive financial results that demonstrate our strategy is working. Plans Under the direction and supervision of the Board, this new team articulated a clear profitability, to reduce our risk profile and to enhance our position as a global leader in lifestyle hospitality management.

Specifically, we outlined plans to: Expand our higher-margin brand and management business globally in key gateway cities and luxury resort destinations under three core brands – Delano, Mondrian and Hudson; Invest in our product and service offerings to enhance operating performance at our existing portfolio of hotels and the attractiveness of our brands; Invest in our infrastructure and organization to enable us to scale our management business with minimal increase in our overhead cost base; and Divest real estate assets to fund our expansion and to improve our risk profile by reducing debt and preferred securities.

Our operational and economic model presents significant opportunity to create value for shareholders. We currently are targeting signing two to four new hotel agreements per year; we announced four in 2012. These agreements are long-term contracts with 15-20 year durations plus renewals. These agreements will provide base fees and chain service reimbursements on managed hotels plus incentive fees and license fees on selected hotels.

These new hotel deals require limited capital investments and we expect them to provide contractual, high-margin revenue streams over 15 to 20 years excluding extension options. We believe these agreements will yield a three- to four-year payback on upfront invested capital.

We have invested in our scalable infrastructure to support a growing and significantly larger portfolio of properties. As a result, we believe the cash flow conversion from the new hotel agreements we have signed will be as high as 90 per cent going forward. We are creating a high-returning, self-

funding business with recurring revenues for our shareholders with a very attractive return on investment.

With projected growth in fees from our 12 existing hotels, fees from the eight deals already signed and under construction, and additional fees from our near-term pipeline, we believe we have substantial built-in growth that, with the right funding, could take us to \$50-60 million of stabilized run-rate gross fees and \$25-35 million of free cash flow per year by 2015. THE GOAL OF OUR STRATEGY IS TO MAXIMIZE THE COMPANY'S VALUE AND APPEAL Policies and procedures Morgans Hotel Group has a strong commitment to providing excellent service to all of ur customers and visitors to our website, including respecting your concerns about privacy. We understand that you may have questions about how this website collects and uses the information that you provide to us.

I.

Browsing This website does not collect personally identifiable information when you browse this website and request pages from our servers unless you voluntarily and knowingly provide it to us. This means that we will not know your name, your email website unless you access the website from a link in an email that we sent. If you access the website from an email link from us, we will know who you are based on he information you previously supplied to us. In addition, when you request a page from our website, our servers log the information provided in the HTTP request header including the IP number, the time of the request, the URL of your request and other information that is provided in the HTTP header.

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II.

**Information We Collect and How We Use It** We will ask you to voluntarily supply us with personally identifiable information (such as your full name, email address, mailing address, telephone number or credit card number) to provide you with a particular service you request, (including when you make a reservation, sign up for email alerts, use the “ contact us” page, email us, establish a Web user profile, submit a résumé, and at other times). For example, if you would like to make a reservation at one of our hotels, we will ask you for information such as name, address, telephone number, email address, and credit card number. We will also use your email address to send a confirmation and, if necessary, we might also use other information to contact you for help in processing the reservation. We will also use your

email address to notify you about special offers and promotions as described in the email section of this privacy statement. III.

Securing the Transmission and Storage of Information After personally identifiable information is voluntarily provided to Morgans Hotel Group, it is stored using commercially reasonable security measures. When we ask you for credit card data, it is transferred over a Secured Sockets Layer (SSL) line, provided you are using a SSL enabled browser such as Microsoft Internet Explorer or Firefox. [Information collected on the websites covered by this Statement is processed and stored in the United States. IV. Disclosure of Information to Third Parties Except as disclosed in this Statement, we do not share, rent, or sell personally identifiable information you have given us to any third party without your permission.

We will disclose your personally identifiable information when required by law, subpoena or other legal process or in good faith belief that such action is necessary to investigate or protect against harmful activities to Morgans Hotel Group guests, visitors, associates, or property (including this website), or to others. We may also share your information with our third party service providers as described in this Statement but they may use this information only to provide Morgans Hotel Group with a specific service and not for any other purpose. In addition, if we sell all or part of our business or make a sale or transfer of assets or are otherwise involved in a information to a third party as part of that transaction [as long as the acquirer agrees to comply with this privacy policy. ].



We may share non-personal aggregate, or ummary, information regarding its customers with partners or other third parties, but we do not sell or share any information at the individual customer level.

V. Cookies Our website uses “ cookie” technology. “ Cookies” are encrypted strings of text that a website stores on a user’s computer. Our website requires the use of a cookie throughout the online reservation process. Without cookies we will not be able to keep information you enter on multiple pages together. For example, unless Morganshotelgroup.

com can remember the dates you used in your hotel search, we will not be able to check room availability. Cookies also enable us to customize our website and offerings to your needs and provide you with a better online experience on our website.

In addition, cookies are used to: Measure usage of various pages on our website to help us make our information more pertinent to your needs and easy for you to access; and Provide functionality such as online reservations and other functionality that we believe would be of interest and value to you. The types of cookies that we use are referred to as “ session” cookies and “ First Party” cookies. Session cookies are temporary and are automatically deleted once you close your Internet browser.

First Party cookies remain on your computer hard drive until you delete them or are otherwise removed upon expiration. We do not use cookies to ascertain any personally identifiable information about you apart from what you voluntarily provide us in your dealings with Morgans Hotel Group.

You may set your browser to block cookies (consult the instructions for your particular browser on how to do this), although doing so will adversely affect your ability to perform certain transactions, use certain functionality, and access certain content on our website. VI. Pixel Tags Morgans Hotel Group and its third-party service providers use pixel tags.

Pixel tags are not visible to the user of the website and consist of a few lines of computer coding delivered with the Web page. Pixel tags are not used to collect any personally identifiable information about you apart from what you voluntarily provide us in your dealings with Morgans Hotel Group.

Morgans Hotel Group and our email service provider use pixel tags to: 1) Track customer response to Morgans Hotel Group advertisements and website content; 2) Determine your ability to receive HTML-based email messages. Our email service provider includes a pixel tag, which they refer to as a “ coded sensor” in all of the HTML-based messages sent on our behalf. The sensor activates when the email message is opened and flags the email address of the user as one that is capable of receiving HTML-based email messages.

This capability helps our service provider to send the email in a format you can read. The sensor does not collect or use any other information.

If you cannot receive HTML, you will not receive a functioning sensor; 3) Know how many users open an email and allow our service provider to compile aggregated statistics about an email campaign or us; and 4) Allow us to better target interactive advertising, enhance customer support and site usability, and provide offers and promotions that we believe would be of

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interest to you. VI'. Emails about Special Offers and Promotions and Opt-out and that you want to receive.

We typically use third party email service providers to send emails. These service providers are contractually prohibited from using your email address for any purpose other than to send Morgans Hotel Group related email. We provide you the ability to define and modify your mailing preferences at any time, including unsubscribing from all marketing communications.

To change your preferences go to <http://ipost.com/morgansgroup/prefs>. In addition, every time you receive an email, you will be provided the choice to opt-out of future emails by following the instructions provided in the email.

VIII. Careers at Morgans Hotel Group Morgans Hotel Group uses tools hosted by third parties on their websites to collect information from individuals that wish to be considered for potential employment. Morgans Hotel Group will not use the information you provide for any purpose other than to allow you to conduct automated Job searches or determine your qualifications or potential employment with Morgans Hotel Group.

The third-party service providers are prohibited from using the information you provide for any purpose other than collecting it on our behalf. ' X.

Investor Relations Communications At your choice, you can use this website to opt-in to email communications such as notices of corporate financial information. Morgans Hotel Group will not use this information for any other purposes. You are able to change your email options and opt-out at anytime.

X. Other Sites Morgans Hotel Group is only responsible for the privacy statement and content of this website.

We are not responsible for the privacy practices or the use of cookies on websites that you have accessed this website from and to the non-Morgans Hotel Group websites that you may access from this website. X’.

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If we decide to change our privacy practices, all changes will be made here and the effective date will be posted so that you will always know what information we gather, how we might use personally identifiable information and whether we will disclose it to anyone.

If we materially change our practices regarding collection or use of your personally identifiable information, your personally identifiable information will continue to be governed by the Statement under which it was collected unless you have been rovided notice, and have not objected to, this change. This statement was last updated on September 4, 2008. Cancellations Cancellation policies vary by hotel and destination. Please see below for your hotel’s cancellation policy. London Sanderson and St Martins Lane

Cancellations must be made before 6: 00 PM 24 hours prior to arrival to avoid a charge of one night's room and tax fees.

An early departure fee of E50 will be charged if guests check out prior to their departure date. Policies can vary for specials, packages, and prepaid reservations. Please review the booking description