

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Finance



Bachelor Thesis

**Assessment of the Financial Position and
Performance of a Chosen Company Operating in the
Hospitality Industry**

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BACHELOR THESIS ASSIGNMENT

Danil Dudnikov

Business Administration

Thesis title

Assessment of the Financial Position and Performance of a Chosen Company Operating in the Hospitality Industry

Objectives of thesis

The aim of this bachelor thesis is to assess the financial position and performance of a chosen company operating in the hospitality industry by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses, revenues, profit and cash-flow for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The proposed extent of the thesis

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Keywords

financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, cash-flow, hospitality industry

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Declaration

I declare that I have worked on my bachelor thesis titled "Assessment of the Financial Position and Performance of a Chosen Company Operating in the Hospitality Industry" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15.03.2023

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Assessment of the Financial Position and Performance of a Chosen Company Operating in the Hospitality Industry

Abstract

The aim of this bachelor thesis is to assess the financial position and performance of a chosen company operating in the hospitality industry by analyzing the company's financial statements with a focus on the representation and changes of the reported assets, liabilities, expenses, revenues, profit and cash-flow for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view. Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of Accor group company on the selected time interval between 2019 and 2021. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis. In general, the author formulates the opinion that the company has a good financial position, but due to the pandemic of the coronavirus, has a really bad financial performance, but it is expected that the situation will be improved by the year 2024.

Keywords: financial statements, financial analysis, financial position, balance sheet, assets, liabilities, equity, financial performance, Income statement, expenses, revenues, profit, cash-flow, hospitality industry

Posouzení finanční situace a výkonnosti vybrané společnosti působící v pohostinství

Abstrakt

Cílem této bakalářské práce je zhodnotit finanční situaci a výkonnost vybrané společnosti působící v pohostinství analýzou účetní závěrky společnosti se zaměřením na reprezentaci a změny vykazovaných aktiv, pasiv, výdajů, výnosů, zisku a cash-flow za zvolené období a identifikovat potenciální finanční problémy a nejvýznamnější faktory ovlivňující zisk z pohledu společnosti a odvětví. Metodika přehledu literatury je založena na sběru dat z příslušného právního rámce, odborných publikací a dalších písemných nebo online zdrojů. Praktická část práce bude vycházet z informací získaných ze zveřejněných výročních zpráv společnosti Accor group o zvoleném časovém intervalu mezi roky 2019 a 2021. Vertikální a horizontální analýza a poměrová analýza účetní závěrky budou použity k posouzení finanční situace a výkonnosti společnosti a k přípravě praktické části práce. K formulování závěrů práce budou použity metody analýzy, syntézy, srovnání a dedukce. Obecně autor formuluje názor, že společnost má dobrou finanční situaci, ale kvůli pandemii koronaviru má opravdu špatnou finanční výkonnost, ale očekává se, že se situace zlepší do roku 2024.

Klíčová slova: finanční výkazy, finanční analýza, finanční situace, rozvaha, aktiva, pasiva, vlastní kapitál, finanční výkonnost, statment příjmů, výdaje, výnosy, zisk, cash-flow, pohostinství

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List of abbreviations

EBIT.....Earnings Before Interest and Taxes

EBT.....Earnings Before Taxes

1 Introduction

In today's world, there are always new businesses opening for business and others closing their doors. Because of this constant flux in the business landscape, everyday individuals are forced to make difficult choices and carefully monitor their financial resources. Obviously, in order to accomplish this goal, most individuals turn to investing firms and holdings for assistance. However, how can an individual assess whether or not a certain holding is reliable and whether or not their valuable funds would be lost? In spite of the fact that there is no fool proof method for predicting the future of a specific company, there is a method for determining whether or not a particular holding is one that ought to be taken seriously. Obviously, there is no way to know for sure what will happen to a particular business.

Accounting not only benefits businesses by assisting them in making crucial decisions and evaluating the state of affairs within the organization, but it also benefits businesses by assisting investors and clients in understanding whether or not a particular business entity is doing well from a financial point of view. In order to do this, the author examines one hospitality company that is present in almost every corner of the world. In addition to the original motivation behind choosing Accor, it is also the author's current place of work in Doha, Qatar. All of this is done in order to get an understanding of whether or not the selected firm should be considered as a potential investment opportunity and to assess whether or not the company is performing well from a financial point of view.

2 Goals and methodology

2.1 Objectives

The aim of this bachelor thesis is to assess the financial position and performance of a chosen company operating in the hospitality industry by analyzing the company's financial statements with a focus on the representation and changes of the reported assets, liabilities, expenses, revenues, profit and cash-flow for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit from the company and industry point of view.

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3 Literature Review

3.1 Hospitality Sector

3.1.1 Essence

The hospitality sector, often known as the hotel industry, is one of the oldest businesses and commercial pursuits that have been carried out by humans all over the globe. There is no question that it is prudent to assert that the concept of running a hotel company is connected to one of the most basic wants of human beings, which is the need to relax, and enterprises that operate in this market flawlessly serve the demand of their consumers. It is clear that human behavior has not changed significantly since ancient times, which helps to explain the phenomenal growth of the hotel industry over the past few centuries and even eras. This is due to the fact that people, regardless of where they are located, will always require a secure place to spend the night. When discussing the modern hotel industry or the hospitality sector, it is important to note that the industry has undergone tremendous change and has also been segmented into a number of sub-industries, each of which is dominated by a number of large "sharks." Nevertheless, when discussing the modern hotel industry or the hospitality sector, it is wise to say that the industry has evolved significantly and it has recently been split into even more narrow segments (Kosar, 2014).

Therefore, it is prudent to say that two major segments of the hospitality sector or hotel management are companies similar to Airbnb and individuals who rent out a house or flat in their possession on a day-to-day basis or for a limited amount of time. Hotel-like companies, on the other hand, are focused on a more official way of conducting hospitality activities, offering a higher standard of treatment for visitors and guests. In spite of this, the constant rivalry between the two is a factor that molds the industry and establishes new trends. Nevertheless, there is a significant difference between the two, and it is this factor that places hotels in a position that is more advantageous for them: hotels may also serve as locations for conferences and private meetings, such as the negotiation of commercial deals or even political campaigns (Zekanovic-Korona, 2014).

For example, it is safe to say that a large number of significant events have taken place in hotels, particularly those that boast a high level of quality and service. The Bretton Woods

conference, which is credited with reshaping the world for almost thirty centuries and establishing an entirely new monetary system, took place in a well-known hotel in the city; the Watergate scandal, which was related to the presidential elections in the United States, also took place in a large hotel; GATT rounds and conferences, The provision of basic services and a place to sleep to anyone who is willing to pay for them is only one aspect of the role and significance that the hotel industry has played over the course of the past century (Ghizoni, 2013). Hotels have also become a venue for conducting business negotiations and even reaching agreements on fundamental international treaties. This is the the essence or face of the hotel industry.

Figure 1, Mount Washington Hotel in Bretton Woods



Source: Historic Hotels, 2022

3.1.2 Biggest Companies

Continuing to the second chapter, it is essential to mention the world's biggest organizations active in the hotel industry. However, before going into details and mentioning more or less prominent organizations, it is vital to mention that big hotel businesses were originally owned by families, but over the course of time, tendencies have changed and the world and financial situation prompted all more or less giant hotel chains to go public and start to sell their shares to anyone willing to buy and invest in a given company. However, there is still a room for family or private owned hotels, but these ones are primarily luxury hotels that offer exceptional service with the fee per night totalling thousands of dollars (Go, 1995).

Figure 2, hotel chains by presence

Hotel chain	Number of hotels	Number of rooms
Marriot International	5952	1 164 668
Hilton Worldwide	4875	796 440
IHG (InterContinental Hotels Group)	5174	767 135
Wyndham Hotel Group	8035	697 607
Shangai Jing Jiang International Hotels Group Co.	5977	602 350
Accor	4144	583 161
Choice Hotels International	6514	516 122
BTG Homeinns Hotels Group	3402	373 560
China Lodging Group	3296	331 347
Best Western Hotels & Resorts	3677	293 059

Source: Djurasevic, 2018

According to a research paper published in 2016, the world's biggest hotel chain is Marriott International with almost 6 thousand hotels all over the world and more than one million rooms in every imaginable corner of the world. Marriott is followed by Hilton Worldwide, one of the world's oldest hotel chain that slightly lags behind Marriott with the number of hotels approximately equal to 5 thousand hotels. The list goes on, but it is still essential to mention that the main subject of the following research is ranked 6th with 4144 hotels available all over the world and with the total number of rooms almost equal to 600 thousand, which is also an impressive result (Djurasevic, 2018). Yet, it suggests that there is still space for further development and catching-up growth in order to reach the Olympus of hotel business.

Figure 3, hotel brands in 2022



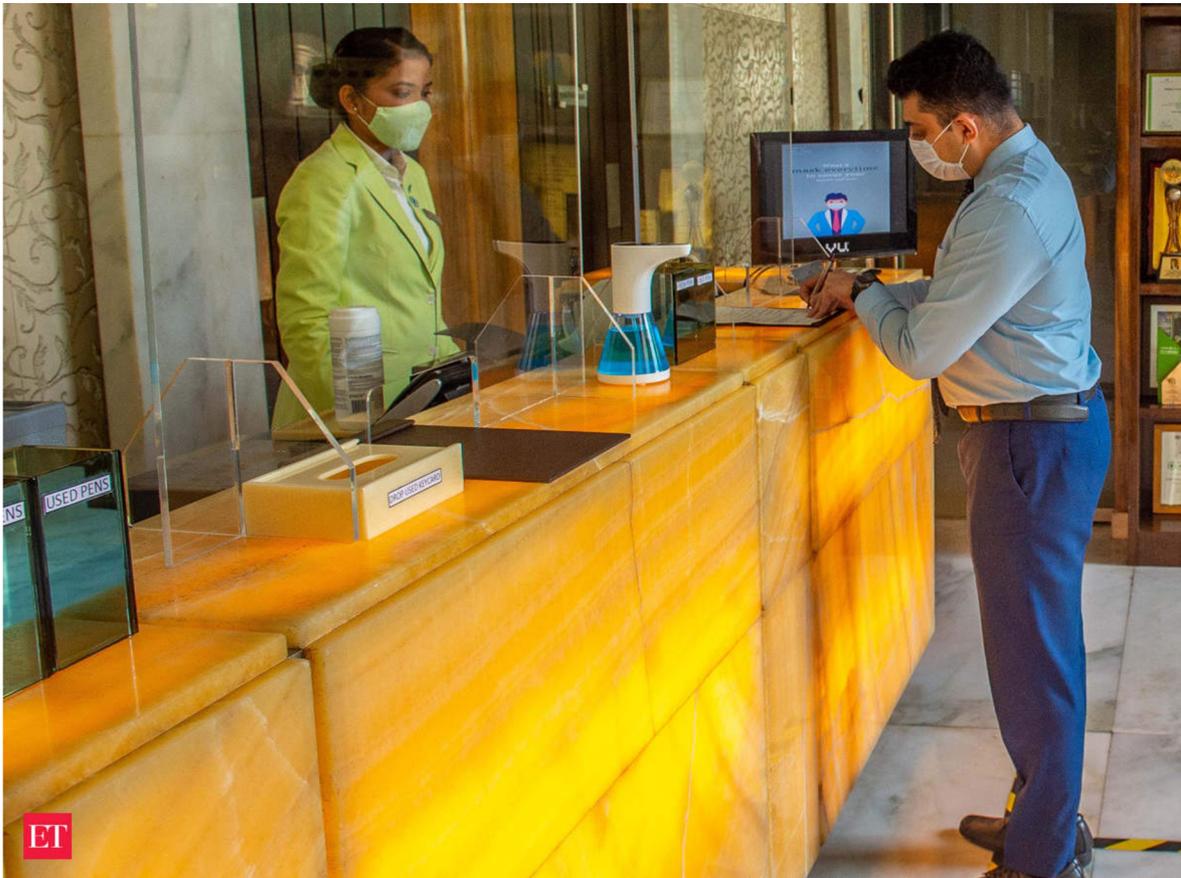
Source: Business Traveller, 2022

3.1.3 Current State of Affairs

Nevertheless, the optimistic narrative of the following work needs to be revised here as the current state of affairs has rapidly begun to deteriorate in the year 2020. This is the year when the coronavirus pandemic has almost literally destroyed all companies operating in the segment and forced them to get rid of a high amount of their liquidity in order to stay solvent and comply with their long-term and short-term debts. The current state of affairs has rapidly begun to deteriorate in the year 2020. Without a doubt, the pandemic had a detrimental influence not only on tourism and local communities who made their ends meet only because of visitors and travelers, but also on international organizations, which suffered significant losses as a result of the epidemic. It is evident that the negative effects of the coronavirus can be partially explained by the multiplier effect in economics. This is a phenomenon in which everything works more or less like a domino's effect, in which one negative impact on somebody's pocket and wellbeing inevitably affects all actors of economy, thereby leading nations into a regime of free economic falling, from which they can be saved only by the assistance of the government (Hao, 2020).

However, given that hotels are often multi-national corporations, it is in the best interest of the countries in which their parent companies are headquartered for the government to provide financial assistance and subsidies to the hotel industry. This presents a difficulty. In spite of this, it would be an inaccurate assumption to assume that hotels generally base their business and entities in the nation in which they were first founded given the data that were shown before. In point of fact, the true situation is a little bit different thanks to the fact that their activities are categorized as both multinational and international ones. As a result, subsidies in one nation could be an effective short-term solution; but, one cannot in any way presume that subsidies were provided to those hotel corporations operating in underdeveloped nations or other regions of the globe where government finances are constrained. To put it another way, the multinational nature of operations was playing the most fundamental role in the success of hotel chains, but it also had an enormous negative impact because subsidies and government help are unable to sustain a company that has its presence in over 100 or even 150 different countries. However, compared to the years 2020 and 2021, 2022 and the upcoming year are expected to be recovery years, when hotel companies would be able to get to the original level of revenue from the pre-covid era. Although the current situation with hotel companies cannot be classified as optimistic or advantageous for them, this does not mean that 2022 and the upcoming year are expected to be purely recovery years without any initiative to grow and expand (Japutra, 2021).

Figure 4, hotels during the pandemic



Source: The Economic Times, 2022

3.2 Financial Statements

3.2.1 Balance sheet – Statement of Financial Position

Financial statements are documents published by companies on annual basis that reflect the current situation of the company in terms of the financial position, financial performance, cash-flow, changes in equity and notes. Those statements are incredibly important for companies themselves, investors, and clients, because those statement reflect if the company is moving in the right direction or not.

The author first starts by describing the essence of the balance sheet – the financial statement that is published by every big company on Earth regardless of the country where it is operating, because it is the most fundamental statement.

This statement indicates the company's financial position, which consists of 3 parts – assets (goods/equipment and other elements owned by the company), liabilities obligations towards other parties and companies and equity (the funds owned by the stakeholders). When it comes to this statement, it has a specific requirement that always has to be followed:

$$\text{Assets} = \text{Liabilities} + \text{Equity}.$$

Figure 5, balance sheet equation



Source: Greuning, 2020

This equation does not only specify a particular condition for creating this statement, but it also explains the nature of elements. While assets are usually owned by the company and used for generating revenue, liabilities and equity are two sources for financing the purchase of those assets. For instance, whenever a bank loan is taken, it inevitably affects two accounts – creditors (liability account, it increases) and bank account (asset account, it also increases), and in the case of the given transaction, it is visible that liabilities are used for funding the company's operations. Yet, the company can also fund the purchase of assets through the equity financing like, for instance, sale of share. All in all, increasing the amount of obligation entails a particular risk and it is very important to keep the amount of obligations controlled otherwise the company might face the need to sell their assets to cover the obligations which are to be paid soon.

Assets themselves are divided into two categories – current assets and long-term assets. Current assets are assets which are expected to be used within a year and they usually include the following elements:

- 1) Cash
- 2) Receivables (amount due from customers)
- 3) Inventory – divided into material, products and merchandise
- 4) Prepaid expenses – expenses prepaid by the company are considered to be assets
- 5) Valuables
- 6) Short-term investments

Long-term assets are assets that are expected to be used for a time period of over a year and they usually are:

- 1) Long-term investments
- 2) Property, plant and equipment (subject to depreciation, permanent value increase).
However, land is not subject to depreciation.
- 3) Licenses and valuable rights

Liabilities or amount due to individuals and companies from the company are divided into the same categories – short-term liabilities and long-term liabilities. These are the most common elements of located in the short-term liabilities segment:

- 1) Short-term loans
- 2) Payables
- 3) Income tax
- 4) Deferred revenues

Long-term liabilities are usually represented by:

- 1) Long-term loans
- 2) Long-term commitments

Finally, equity is the capital owned by the company and it is usually represented by:

- 1) Capital
- 2) Retained earnings (cumulative net income from previous periods minus dividends)
- 3) Reserve fund
- 4) Treasury stock (stocks bought back by the company)
- 5) Paid-in Capital

All in all, financial position and the balance sheet itself is the key element to understand the company's financial situation and make conclusions based on it (Van Greuning, 2020).

Figure 6, example of balance sheet

Company Balance Sheet December 31, 2020			
Assets		Liabilities	
Current assets		Current liabilities	
Cash and cash equivalents	\$ 2,200	Accounts payable	\$ 25,900
Short-term investments	10,000	Short-term loans	15,000
Accounts receivable	39,500	Income taxes payable	9,100
Inventory	32,000	Other accrued liabilities	7,500
Supplies	3,800	Deferred revenues	3,500
Prepaid expenses	1,500	Total current liabilities	61,000
Total current assets	89,000		
Investments	36,000	Long-term liabilities	
Property, plant & equipment		Notes payable	20,000
Land	12,000	Bonds payable	375,000
Buildings	180,000	Deferred income taxes	25,000
Equipment	201,000	Total long-term liabilities	420,000
Less: accumulated depreciation	(56,000)	Total liabilities	\$ 481,000
Total	337,000	Stockholders' Equity	
Intangible assets	305,000	Common stock	119,000
Other assets	3,000	Retained earnings	220,000
Total assets	\$ 770,000	Less: Treasury stock	(50,000)
		Total stockholders' equity	289,000
		Total liabilities & stockholders' equity	\$ 770,000

Source: Greuning, 2020

3.2.2 Income statement – Statement of Financial Performance

Income statement is a financial statement that tells the public information about the company's performance and about the profit specifically. Profit are the funds that go directly to the pocket of the company and profit is calculated as:

$$\text{Profit} = \text{Total Revenue} - \text{Total Expenses}$$

Figure 7, profit formula



Profit Formula

$$\text{Profit} = \text{Total Sales} - \text{Total Expenses}$$

Source: Jagannath, 2013

However, there is still another intriguing facet connected to the revenue statement that ought to be brought out here. There are two distinct types of income statements: those that classify expenditures according to their nature (such as depreciation, wages, changes in own production, rent, charges, etc.) and those that classify expenses according to the functions they perform (expenses are categorized according to their function – costs of goods sold, administrative expenses and distribution expenses). Both types of income statements ultimately arrive at the same conclusion, which is profit; this is true despite the fact that the operational portion of the computation is different in each case. After the operational half of the income statement comes the financial component, which typically includes the interest and comes next on every income statement.

In addition to this, the profit is computed by deducting each category of costs from the total revenue. In actual business, the gross profit is calculated by taking the total sales and

deducting the expenses of the things that were sold. The EBIT, or earnings before interest and taxes, may be calculated after one has subtracted the whole amount of operational expenditures from the total amount of gross profit. When taxes are deducted from earnings before interest and taxes (EBIT), the result is earnings before taxes (EBT). After deducting EBT from the organization's total taxable revenue, one arrives at the organization's net income, which directly indicates the organization's unadulterated profit. However, there are occasions when the business does not have a positive net income; when this occurs, the last component is referred to as the net loss.

In addition to all of this, numerous margins are computed for this same statement in order to provide the person who is reading the financial statement a better notion about the profitability of the firm (Jagannath, 2013).

Figure 8, income statement sequence of actions

	Revenue
-	Cost of Goods Sold
=	Gross Profit
-	Operating Expenses
=	Operating Income
-	Interest Expense
=	Pre-tax Income
-	Income Tax
=	Net Income

Source: Jagannath, 2013

3.2.3 Cash-Flow statement

A cash flow statement is a kind of financial statement that details the flow of cash within an organization. Any transaction in which the corporation spends money to acquire anything, such as the acquisition of assets, is considered a cash outflow. Any transaction in which the firm borrows money or finances the acquisition of assets, such as a bank loan, is considered a cash inflow for the company. Depreciation, on the other hand, is not counted as either an inflow or an outflow of cash. The statement provides a comprehensive summary of all cash inflows and outflows and separates them into three categories: operational, investment, and financing cash flow.

Operating cash flow is something whose sign is intended to be positive since it reflects the company's capacity to sustain its day-to-day operations. Having a positive operating cash flow sign is something that is desired. Investing cash flow's does not directly suggest that the company is either doing well or poorly, but whenever the sign is negative, it means that the company is investing and it is a good thing because it might later on help the company to generate new cash inflows, so this element traditionally has a negative sign, because big companies tend to actively invest. In other words, investing cash flow's does not directly suggest that the company is either doing well or poorly (Sayari, 2013).

3.2.4 Statement of changes in equity

A company's starting and ending balances in its equity over a reporting period are compared and reconciled in the statement of changes in equity (also known as the equity statement). Since it is not deemed to be an important component of the monthly financial statements, it has the highest probability of being omitted from the set of financial statements altogether. On the other hand, this section of the yearly financial statements is very standard. To determine the final ending balance, the statement begins with the initial equity balance. It then adds or subtracts items such as earnings and dividend payments, among other things, until it reaches the final finishing balance. The basic structure of the statement's calculations may be broken down as follows:

Beginning equity + Net income – Dividends +/- Other adjustments = Ending Equity
(Lessambo, 2018).

3.2.5 Notes

The very last and most important part of a company's financial statements is the "Notes" section, which details the processes that were carried out in order to generate those results. For instance, a method for calculating the depreciation expense can be found in this statement alongside an explanation of the methods that were used for the valuation of own inventory (for instance, LIFO, FIFO, and average). This statement also includes a method for calculating the value of own inventory based on an average of all three methods. Due to the fact that it might take as many as forty pages on average, this is one of the most comprehensive financial statements.

Quite frequently, the information regarding the going concern accounting principle can be located. This principle of accounting operates under the presumption that the business entity in question is in a position to carry on with their usual business activities and fulfill their existing commitments (Hasanaj, 2019).

3.3 Financial analysis

3.3.1 Liquidity Ratios

Financial analysis involves a more detailed breakdown of the financial statement through the calculation of various financial ratios focused primarily on three domains – liquidity, solvency and profitability.

Liquidity is the extent to which the company is liquid, i.e., able to quickly sell its assets in order to cope with their obligations, if such a need emerges. Liquidity ratios usually consider the calculations with the company's current assets. The most frequent ratios used for defining the company's degree of liquidity are quick ratio, current ratio and cash ratio. Whenever the company's liquidity ratios are above 1 it inevitably means that the company has enough liquid assets to cope with their obligations one such a need emerges (Costea, 2009).

Figure 9, liquidity ratios

Liquidity Ratios	
Current Ratio =	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio =	$\frac{\text{Cash + Receivables + Marketable Securities}}{\text{Current Liabilities}}$
Cash Ratio =	$\frac{\text{Cash + Marketable Securities}}{\text{Current Liabilities}}$

Source: Costea, 2009

3.3.2 Solvency Ratios

Then, the second domain of financial ratios is solvency. Solvency tells information about the company's debt overdraft and its ability to stay afloat and cover the amounts borrowed from other institutions. Solvency ratios make sure that the company does not take too much loan, so that it will be able to pay it off. The most important solvency ratios are: equity ratio, debt to equity, financial leverage, debt to capital and debt to assets. The desired figure for those ratios is also above one, so that it would mean that the company does not have too much debt and its solvency is out of the question (Ibendahl, 2016).

Figure 10, solvency ratios

Solvency ratios	Ratio calculation
Debt-to-assets	$\frac{\text{Total debt}}{\text{Total assets}}$
Debt-to-capital	$\frac{\text{Total debt}}{\text{Total debt} + \text{Total shareholders' equity}}$
Debt-to-equity	$\frac{\text{Total debt}}{\text{Total shareholders' equity}}$
Financial leverage	$\frac{\text{Average total assets}}{\text{Total shareholders' equity}}$

Source: Ibendahl, 2016

3.3.3 Profitability Ratios

Finally, the last traditional domain of financial ratios is profitability. Profitability refers to the company's ability to generate profit from their assets, equities and other elements from both balance sheet and income statement. The most traditional profitability ratios are gross margin, EBT margin, EBIT margin, return on investment, return on equity and return on assets. The bigger the ratio is, the more profitable is the organization (Laitinen, 2017).

Figure 11, profitability ratios

$$\begin{array}{l} \text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100 \\ \text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Sales}} \times 100 \end{array} \quad \left| \quad \begin{array}{l} \text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}} \times 100 \\ \text{Return on Assets} = \frac{\text{Net Income}}{\text{Assets}} \times 100 \end{array} \right.$$
$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Source: Laitinen, 2017

3.3.4 Valuation Ratios

Finally, the author decides to include an additional domain related to the company's valuation that helps potential investors to assess if it is worth investing in a given company or not. Valuation ratios are ratios that help to find evidence if the company's current stock price is overvalued or undervalued based on price and additional elements from the company's financial statement.

Thus, the first ratio that is often used from that domain is P/E ratio or price-to-earnings ratio. This ratio shows the price that an investor pays for 1\$ of earnings. Usually, the P/E ratio for a given company is calculated and then compared to P/E ratio of other companies from the same industry, and if the value for the inspected company is lower than the ratio of

other companies, then it is worth considering this investment option as the stock is likely to be undervalued (Gottwald, 2012).

Figure 12, P/E ratio



Source: Gottwald, 2012

Finally, the very last ratio taken by the author into consideration is P/B value or price-to-book value ratio, which indicates the price at which the company is traded relatively to its book value. Book value of the company is calculated as the total amount of assets minus the total amount of liabilities. Whenever this ratio is big, it suggests that the company is trading at the value exceeding its book value and it is a good piece of information for the company itself, but not a very desirable situation for investors. All in all, the P/B value for a particular company is often compared with the same ratio of another companies in order to make a decision if the stock is undervalued or overpriced (Fairfield, 1994).

Figure 13, P/B ratio

$$P/B \text{ ratio} = \frac{\text{market price per share}}{\text{book value per share}}$$

Source: Fairfield, 1994

4 Practical Part

4.1 Characteristics of Accor

Accor is a French multinational company specializing in hospitality segment and the company's primarily service lies in offering people a place to spend their vacation in the world's most fashionable and popular places. Given the fact that it is a French company, Accor is traded on Paris Stock Exchange market, which offers rather limited investment opportunities since the most attractive exchange markets are still located in the USA, being NASDAQ and NYSE. Nevertheless, place of main headquarters and historical place of origin of Accor did not really anyhow restrict the company from rapid growth and expansion – the company is active for the last 55 years, starting its operations in 1967.

To be more specific about Accor group's operations, it is essential to mention that Accor was able to diversify their service and target different customers groups, thus increasing the overall customer base and also increasing revenue and brand awareness. Thus, Accor currently offers 4 different hotel segments for potential customers:

- Luxury segment, representing by high-class hotels with expensive fees for nights but a completely different level of service. This segment is represented by Sofitel and Raffles, two of the most well-known subsidiaries of Accor group.
- Premium segment, which is primarily used for business travels and hosting of various business conferences, where people are able to get a really high standard of service for a relatively elevated price. This segment is represented by Swissotel, Movenpick and Grand Mercure, for instance.
- Mid segment or middle class, which is used by general public and families planning to explore a new location or visit their favourite resort. This segment is represented by Mercure and Novotel, the most prominent ones.
- Economy, offered for quick stays and students with more affordable pricing to everyone. Represented primarily by Ibis.

Clearly, one aspect of Accor's group business operations comes into one's notice and it is the segmentation of the operations and numerous subsidiaries and smaller units of Accor

group. This is explained by the Accor's business strategy, where the company focuses on buying smaller hotels, providing a nominal extent of independency to them but still making them work for Accor. As of now, this strategy proved itself to be highly successful and Accor gradually continues its expansion. To be more specific, Accor has recently agreed the purchase of a smaller hotel chain, where the author of the following work is currently working, so in the nearest future, the author himself is expected to work for Accor, if the deal won't get cancelled or postponed.

Figure 14, Accor - breakdown of smaller units



Source: CB Insights, 2018

Undoubtedly, the company was not an exception with regard to the negative effect and financial collapse during the times of the pandemic, but a deeper look at that will be taken in the following part of the bachelor thesis.

As for the market share of Accor, it is estimated that the share will keep on growing as Accor continues its rapid expansion to new markets buy striking deals with more and more smaller but yet successful hotels situated in really good locations.

4.2 Financial position of the company

4.2.1 Horizontal analysis

4.2.1.1 Balance Sheet

The author starts his analysis of the company's position and perspective with the balance sheet because it is the most fundamental statement reflecting the company's assets and sources of financing for those assets. This allows the author to begin his examination of the company's performance and perspective. As a result, the author conducts the horizontal analysis, which entails doing an inquiry into the changes that have occurred through time in the company's assets, liabilities, and equity. The following table provides an overview of a cross-sectional examination of the assets held by the firm. For the horizontal analysis, the author considers the chain index.

Table 1, horizontal analysis of the company's assets

	2019	2020	2021
<i>Cash and Short-term investment</i>	\$ 2,287	\$ 2,484	\$ 1,674
<i>Inventories</i>	\$ 20	\$ 21	\$ 9
<i>Receivables</i>	\$ 939	\$ 723	\$ 921
Total current assets	\$ 3,079	\$ 3,684	\$ 3,274
<i>Proprty, plant & equipment (GROSS)</i>	\$ 1,163	\$ 619	\$ 548
<i>Accumulated depreciation</i>	\$ 380	\$ 372	\$ 415
<i>Long-term investments</i>	\$ 1,949	\$ 1,278	\$ 1,398
<i>Goodwill</i>	\$ 1,947	\$ 1,786	\$ 2,158
<i>Intangible assets</i>	\$ 3,130	\$ 2,751	\$ 2,908
Total non-current assets	\$ 10,858	\$ 6,869	\$ 7,395
Total Assets	\$ 13,937	\$ 10,553	\$ 10,669
Percentual difference			
	2020	2021	
<i>Cash and Short-term investment</i>	9%	-33%	
<i>Inventories</i>	5%	-57%	
<i>Receivables</i>	-23%	27%	
Total current assets	20%	-11%	
<i>Proprty, plant & equipment (GROSS)</i>	-47%	-11%	
<i>Accumulated depreciation</i>	-2%	12%	
<i>Long-term investments</i>	-34%	9%	
<i>Goodwill</i>	-8%	21%	
<i>Intangible assets</i>	-12%	6%	
Total non-current assets	-37%	8%	
Total Assets	-24%	1%	

Source: own processing based on the company's financial statements

When discussing the selected time period in the context of practically every organization, it is pretty obvious that the year 2020 was somewhat difficult owing to the global economic crisis caused by the pandemic. Furthermore, this crisis, as it was mentioned in the literature review, had even more serious repercussions for the hotel industry. So it was the case with Accor, where there was a 24% drop in the amount of total assets and 37% drop in the amount of non-current assets, whereas the amount of current assets increased by 20%, which might be explained by active borrowing by company to increase liquidity. All in all, the company was also able to perform a partial recovery in 2021, but it is still visible that the growth rate in 2021 is lower than the drop in 2020, with 1% increase in the amount of total assets in 2021. All in all, it is expected that the upcoming years will indeed be a real recovery period for Accor.

Decrease in liquidity or in the amount of current assets in 2021 might suggest that the company needed to comply with their obligations and the company was rapidly paying out the debt to their creditors, such as banks for instance. What is even more, the amount of non-current assets was decreasing as well for those 2 years, suggesting that the company had to get rid of some of their long-term assets because they were not anyhow able to maintain them in the times of financial and economic crisis, where workers had to be paid and facilities had to be constantly maintained.

Clearly, the situation with the financial position of assets is rather complicated after the year 2020, which was highly anticipated by the author beforehand.

Table 2, horizontal analysis of the company's liabilities and equity

	2019	2020	2021
Short-term debt	\$ 393	\$ 1,071	\$ 720
Payables	\$ 441	\$ 327	\$ 441
Accrued Liabilities	\$ 219	\$ 167	\$ 192
Income tax payable	\$ 161	\$ 68	\$ 60
Other current liabilities	\$ 866	\$ 1,301	\$ 1,222
Total current liabilities	\$ 2,080	\$ 2,934	\$ 2,635
Long-term debt	\$ 3,301	\$ 3,787	\$ 3,835
Deferred Taxes	\$ 403	\$ 338	\$ 318
Total non-current liabilities	\$ 3,704	\$ 4,125	\$ 4,153
Total Liabilities	\$ 6,962	\$ 7,393	\$ 7,121
Common stock	\$ 813	\$ 784	\$ 786
Retained earnings	\$ 4,100	\$ 1,008	\$ 1,068
Paid-in capital	\$ 1,943	\$ 1,675	\$ 1,675
Total equity	\$ 6,975	\$ 3,160	\$ 3,548
Total Liabilities + Equity	\$ 13,937	\$ 10,553	\$ 10,669
Percentual difference			
Short-term debt	173%	-33%	
Payables	-26%	35%	
Accrued Liabilities	-24%	15%	
Income tax	-58%	-12%	
Other current liabilities	50%	-6%	
Total current liabilities	41%	-10%	
Long-term debt	15%	1%	
Deferred taxes	-16%	-6%	
Total non-current liabilities	11%	1%	
Total Liabilities	6%	-4%	
Common stock	-4%	0%	
Retained earnings	-75%	6%	
Paid-in capital	-14%	0%	
Total equity	-55%	12%	
Total Liabilities + Equity	-24%	1%	

Source: own processing based on the company's financial statements

Undoubtedly, the author finds the explanation behind the fluctuations in assets in the other side of the accounting equation – liabilities and equity. As it was supposed, the company had to increase its short term and also long-term borrowing in order to continue to maintain their daily operations under the conditions of almost no customers. Hence, it is not a real surprise that the amount of total current liabilities increased by almost 50% in 2020 compared to 2019, and the amount of non-current liabilities increased by 11% compared to the year 2019. Yet, the recovery was partially made possible with a decrease of 10% in the amount of current liabilities in 2021 compared to 2020, but the amount of short-term obligations is still significantly higher than it was before the pandemic. All in all, the

company was practicing active borrowing, as almost any other companies operating during the times of the pandemic, so there are no peculiarities or any particular exceptions in that regard. What is even more, the company experienced a decrease in the amount of equity, which is also explained by the need of additional finances. Effectively, companies can either practice equity financing or debt financing, so the situation might suggest that Accor was practicing the combination of two in order to stay buoyant. Overall, the situation with obligations suggests that Accor might have potential problems with solvency if the situation does not improve soon enough.

4.2.1.2 Income statement

Then, it is vital to take a look at the company's income statement that will provide information about the company's financial performance and profit.

Table 3, horizontal analysis of the company's income statement

Element/Year	2019	2020	2021
Sales	\$ 4,049	\$ 1,621	\$ 2,204
COGS	\$ 2,046	\$ 1,165	\$ 1,354
Gross Income	\$ 2,003	\$ 456	\$ 850
Operating expenses	\$ 1,470	\$ 1,121	\$ 1,077
Earnings Before Taxes and Interest	\$ 533	-\$ 665	-\$ 227
Interest expense	\$ 77	\$ 86	\$ 111
Pretax income	\$ 603	-\$ 2,309	-\$ 55
Income Tax	\$ 138	-\$ 62	-\$ 69
Net income	\$ 465	-\$ 2,247	\$ 55
EPS	\$ 1.55	-\$ 7.71	\$ 0.19
Percentual difference			
	2020	2021	
Sales	-60%	36%	
COGS	-43%	16%	
Gross Income	-77%	86%	
Operating expenses	-24%	-4%	
Earnings Before Taxes and Interest	-225%	66%	
Interest expense	12%	29%	
Pretax income	-483%	98%	
Income Tax	-145%	-11%	
Net income	-583%	102%	
EPS	-597%	102%	

Source: own processing based on the company's financial statements

The situation with the company's operations looks rather dramatic in 2020 compared to 2019, which was quite expected. However, the extent to which there was a drop is really disappointing – the company's sales drop by 60% in 2020 compared to 2019, which is definitely a lot, but the number for the net income is even more concerning – the company experienced a percentual drop in the net income equal to almost 600 percent in 2020 compared to 2019. In absolute numbers, the net income before the pandemic was equal to 465 million euro, while after the pandemic, the company experienced a net loss of 2 billion euro, which is a tremendous amount. However, a partial recovery was made in 2021 where there was a partial increase. What is even more, the problem for potential investors lies in the value for the earnings per share, which is significantly low and in 2020 was even negative. For sure, the company has started to improve the financial performance with the number of sales increased in 2021 by almost 40%, but it is still not enough to get from the economic trough.

4.2.1.3 Cash-flow statement

Finally, the very last financial statement that the author will inspect according to the horizontal analysis is the statement of cash flow. The analysis is presented on the table below.

Table 4, horizontal analysis of the company's cash flow statement

	2019	2020	2021
Operating cash flow	\$ 641	-\$ 463	-\$ 234
Investing cash flow	\$ 330	\$ 885	-\$ 113
Financing cash flow	-\$ 1,123	-\$ 229	-\$ 456
Percentual difference			
	2020	2021	
Operating cash flow	-238%	98%	
Investing cash flow	-63%	-883%	
Financing cash flow	390%	-50%	

Source: own processing based on the company's financial statements

The nature of each cash flow has to be examined separately, because some of them can have negative signs, whilst others cannot. Operating cash-flow in the starting period (2019) was positive, but the situation changed rapidly in 2020, when the value of this critical indicators went below zero, which suggests that the company was not able to maintain their

costs with the current level of sales and operations. However, the improvement in 2021 in the operating cashflow means a good thing for the company, but it is still negative and the situation has to be improve as soon as possible otherwise the whole existence of the company can be put under the question.

Investing cash-flow of Accor is positive in 2019 and 2020, which is not very traditional for multinational organizations focused on expansion and profit-making. Thus suggests that Accor was not really investing much in the pre-pandemic period and clearly, it did not start doing so during the times of economic crisis. Presumably, this might have partially saved Accor from even more dramatic financial troubles as the company had cash that could have been used for payment of obligations. With long-term investments and investments in general, it is not always so easy to convert them into cash, so this was a good coincidence for Accor. In 2021, the company started to invest and it is justified by the search of new potential ways of making income in order to improve the financial performance.

When it comes to the financing cash-flow, the company has this indicator as negative and this is explained by a large number of borrowings that the company has, which must be repaid in time. Furthermore, Accor pays dividends, so it is quite common for such companies to have a negative financing cash-flow.

4.2.2 Vertical analysis

4.2.2.1 Balance Sheet

Now, the author will analyse the same financial statements using another kind of analysis – the vertical one. The following table shows the vertical analysis of the company's assets.

Table 5, vertical analysis of the company's assets

	2019	2020	2021
Cash	\$ 2,287	\$ 2,484	\$ 1,674
Share of current assets	74%	67%	51%
Inventories	\$ 20	\$ 21	\$ 9
Share of current assets	1%	1%	0%
Receivables	\$ 939	\$ 723	\$ 921
Share of current assets	30%	20%	28%
Total current assets	\$ 3,079	\$ 3,684	\$ 3,274
Share of total assets	22%	35%	31%
Net, proprty, plant & equipment (GROSS)	\$ 1,163	\$ 619	\$ 548
Accumulated depreciation	\$ 380	\$ 372	\$ 415
Share from property	33%	60%	76%
Long-term investments	\$ 1,949	\$ 1,278	\$ 1,398
Share of non-current assets	18%	19%	19%
Goodwill	\$ 1,947	\$ 1,786	\$ 2,158
Share of non-current assets	14.0%	16.9%	20.2%
Intangible assets	\$ 3,130	\$ 2,751	\$ 2,908
Share of non-current assets	29%	40%	39%
Total non-current assets	\$ 10,858	\$ 6,869	\$ 7,395
Share of total assets	78%	65%	69%
Total Assets	\$ 13,937	\$ 10,553	\$ 10,669

Source: own processing based on the company's financial statements

Vertical analysis is a good tool to understand the structure of financial statements and understand the priorities of organizations when conducting financial or business activity. When it comes to Accor, in 2019, 2020 and 2021, receivables had a really high position in the percentage of total current assets, which suggests that the company might have some problems with the collection of debts owed to them. All in all, receivables share was fluctuating with a partial decrease in 2020 and further increase in 2021, but the situation is still seeming to be under control. As for cash, the company is doing good from the perspective of liquidity, because cash constitutes an overwhelming portion of their current assets. However, the share is rapidly diminishing from 2019 with 74% to 2021 with just 51%. This is explained by the need of paying debtors, so the situation with the decrease of liquidity is explained solely by the pandemic. What is more interesting about Accor is that they almost have no short-term investments, so it explains positive value for the cash-flow statement in the investing section.

As for the long-term assets, the share of accumulated depreciation from the property and equipment assets is critical and keeps on increasing. In 2019, this share was already high with 33%, but it increased to 60% in 2020, which is rather critical and reached the value of 76%, which means that the overwhelming portion of the company's long-term fixed assets are soon to be written off if the company does not put further efforts in replacing old machinery.

Overall, the company has more long-term assets than short-term ones, but the situation is changing and this change is explained by the need to have more liquidity in order to pay off their debts.

Table 6, vertical analysis of the company's liabilities and equity

	2019	2020	2021
Short-term debt	\$ 393	\$ 1,071	\$ 720
Share of current liabilities	19%	37%	27%
Payables	\$ 441	\$ 327	\$ 441
Share of current liabilities	21%	11%	17%
Income tax	\$ 161	\$ 68	\$ 60
Share of current liabilities	8%	2%	2%
Accrued Liabilities	\$ 219	\$ 167	\$ 192
Share of current liabilities	10.5%	5.7%	7.3%
Other current liabilities	\$ 866	\$ 1,301	\$ 1,222
Share of current liabilities	42%	44%	46%
Total current liabilities	\$ 2,080	\$ 2,934	\$ 2,635
Share of total liabilities	29.9%	39.7%	37.0%
Long-term debt	\$ 3,301	\$ 3,787	\$ 3,835
Share of long-term liabilities	89%	102%	104%
Deferred taxes	\$ 403	\$ 338	\$ 318
Share of long-term liabilities	11%	8%	8%
Total non-current liabilities	\$ 3,704	\$ 4,125	\$ 4,153
Share of total liabilities	53.2%	55.8%	58.3%
Total Liabilities	\$ 6,962	\$ 7,393	\$ 7,121
Share of total liabilities + equity	50.0%	70.1%	66.7%
Common stock	\$ 813	\$ 784	\$ 786
Share of equity	11.66%	24.81%	22.15%
Retained earnings	\$ 4,100	\$ 1,008	\$ 1,068
Share of equity	59%	32%	30%
Total equity	\$ 6,975	\$ 3,160	\$ 3,548
Share of total liabilities + equity	50.0%	29.9%	33.3%
Total Liabilities + Equity	\$ 13,937	\$ 10,553	\$ 10,669

Source: own processing based on the company's financial statements

Continuing to the second part of the accounting equation once again – liabilities and equity, it is wise to say that the company does have more liabilities than equity. What is even more, the situation is rapidly changing from 2019 to 2021, where debts kept on increasing, while equity kept on diminishing. This is also one of the main consequences of experiencing huge net losses in 2020.

As for the borrowing itself, it is fair to say that the company is focused more on having a long-term debt, which is justified by the nature of the business. What is even more, the company had significantly more long-term debt portion in the pre-covid times than after the

pandemic, when the amount of current liabilities slowly started to prevail. Of course, short-term borrowing is a temporary remedy for dealing with operating problems. Especially during such complicated times, companies are not really focused on potential expansion, which is usually financed through the debt-financing and to be more specific, long-term borrowing.

4.2.2.2 Income statement

Table 7, vertical analysis of the income statement

	2019	2020	2021
<i>Sales</i>	\$ 4,049	\$ 1,621	\$ 2,204
<i>COGS</i>	\$ 2,046	\$ 1,165	\$ 1,354
<i>Gross Income</i>	\$ 2,003	\$ 456	\$ 850
<i>Gross Margin</i>	49%	28%	39%
<i>Operating expenses</i>	\$ 1,470	\$ 1,121	\$ 1,077
<i>Earnings Before Taxes and Interest</i>	\$ 533	-\$ 665	-\$ 227
<i>EBIT Margin</i>	13%	-41%	-10%
<i>Interest expense</i>	\$ 77	\$ 86	\$ 111
<i>Pretax income</i>	\$ 603	-\$ 2,309	-\$ 55
<i>EBT Margin</i>	15%	-142%	-2%
<i>Income Tax</i>	\$ 138	-\$ 62	-\$ 69
<i>Net income</i>	\$ 465	-\$ 2,247	\$ 55
<i>Net Margin</i>	11%	-139%	2%
<i>EPS</i>	\$ 1.55	-\$ 7.71	\$ 0.19

Source: own processing based on the company's financial statements

As for the final piece of vertical analysis – income statement, it is fair to say that troubled situation with finances and performance is inevitably reflected in margins of profitability of the company. Net margin in 2019 was 11%, while in 2020 it became -139%, which is absolutely critical and even tragic for an organization. Recovery was partially successful, because the tide was changed and the net margin totalled 2% in 2021, but it is still not enough in the context of astonishing losses in 2020. What is even more, it is fair to say that the situation like that happened primarily due to the drop in sales, so there was really no surge in the amount of costs, the problem with the situation is that the company in fact had to pay given costs for maintenance in order to keep their hotels running, but without traditional sales, there is no way that the situation can continue on and on again.

4.3 Financial performance

4.3.1 Liquidity

Now, the author will focus on the analysis of financial performance reflecting in various ratios covering the discussed earlier domains – liquidity, solvency and profitability.

Table 8, liquidity ratios

	Years		
	2019	2020	2021
Liquidity ratios			
<i>Current ratio</i>	1.48	1.26	1.24
<i>Cash ratio</i>	1.47	1.25	1.24

Source: own processing based on the company's financial statements

When it comes to liquidity, the company did not really experience any problem with it so far because values for both ratios are above 1 suggesting that there are enough of liquid assets to comply with short-term obligations. However, it is essential to understand that the company increasing its cash through borrowing and they also got quite fortunate because prior to the year 2020, the company had not been investing so much, so they had a lot of cash in their disposal, which partially saved them from even bigger disaster. The drop in those ratios in 2020 and 2021 is not a surprise because some current assets had to be used for obligations.

4.3.2 Solvency

Table 9, solvency ratios

Solvency	2019	2020	2021
	<i>Equity ratio</i>	0.50	0.30
<i>Debt to assets</i>	0.27	0.46	0.43
<i>Debt to equity</i>	0.53	1.54	1.28

Source: own processing based on the company's financial statements

Equity ratio of the company suggests that Accor was primarily focused on debt financing, which is quite common among European companies. However, the dependency on debt financing has become even more visible in 2020 with a slight improvement in 2021. It is expected that the company will try to reach its pre-covid indicator for the equity ratio approximately equal to 0.5. As for the debt to assets, it is possible to say that the portion of Accor's debt does not overweight their assets, which is good from the point of view of potential sale of a part of their assets to cover debts. Actually, this is exactly what happened in 2020, when Accor sold a part of their assets and ratio dropped to 0.46. Still, the situation is under full control here. Yet, the situation with debt to equity is not so good with debt overweighting the company's equity. The situation is gradually improving and the company is expected to get the value for the ratio under 1 in the nearest future.

4.3.3 Profitability

Table 10, profitability ratios

Profitability	2019	2020	2021
<i>Gross profit margin</i>	49%	28%	39%
<i>Net profit margin</i>	11%	-139%	2%
<i>Return on Equity</i>	7%	-71%	2%
<i>Return on Assets</i>	3%	-21%	1%

Source: own processing based on the company's financial statements

Profitability before the pandemic was relatively good with 50% for the gross margin in 2019 and 11% for the net margin, suggesting that every 10th dollar earned by Accor in 2019 was turned into profit. However, as it has already been discussed, the situation took a tragic turn in 2020, so the profitability diminished really rapidly. The same applies to other indicators of profitability, so there can be just one conclusion for this part – the situation with profitability seems to be the most complex and adverse one in comparison with other ratio analyses.

4.3.4 Valuation

For the final part of ratio analysis, the author selects 2 valuation ratios being the price to earnings ratio and price to book value ratio, discussed earlier in the literature review in more detail.

Table 11, P/E ratio analysis

<i>Company</i>	<i>Price</i>	<i>EPS Value</i>	<i>P/E ratio</i>
Accor	\$ 24.55	\$ 0.01	2455
Mariott	\$ 161.70	\$ 1.94	83.35051546
Hilton	\$ 138.00	\$ 1.26	109.5238095

Source: own processing based on the company's financial statements

The value of P/E ratio for Accor equal to 2455 in 2022 suggests that the company is significantly overpriced and not at all attractive for potential investors, because to get 1\$ of earnings for their share they have to pay almost 2500\$, which is a colossal sum of money. The situation with other companies is slightly better with 83\$ for Mariott, which presumably was able to recover quicker than Accor and they boosted their net income faster. Yet, Hilton's situation is also better with investors paying almost 110\$ to get 1\$ of earnings. In that regard, Accor is not at all an attractive investment option.

Table 12, P/B ratio analysis

<i>Company</i>	<i>Price</i>	<i>Book value per share</i>	<i>P/B ratio</i>
Accor	\$ 24.55	\$ 15.26	1.608781127
Mariott	\$ 161.70	\$ 1.33	121.5789474
Hilton	\$ 138.00	-\$ 5.37	-25.69832402

Source: own processing based on Yahoo Finance

Finally, Accor has a P/B ratio of 1.6, which is a good sign suggesting that the company's valuation is done according to the book value that they have. For other companies from the same segment, the value of P/B ratio is significantly worse with 121 for Mariott and even a negative one for Hilton, meaning that the situation for them is significantly worse than for other two, including Accor. All in all, in that regard, Accor is a good investment opportunity.

5 Results and Discussion

5.1 Assessment of the financial position of the company

The situation with the financial position of the company can be categorized as a relatively optimistic and good one, because despite problems with revenue streams and operations, the company was still able to maintain its good book value and good financial position with high liquidity (verified according to horizontal and vertical analyses alongside the ratio analysis), according to the results on tables 1, 2 and 3. However, the situation with the company's long-term assets is really concerning because the share of accumulated depreciation is really high and keeps on increasing and it is already reaching 80%. Hence, a further work or improvement can be achieved by the company in that domain. In terms of debt and obligations, the company does not really have a lot of them because the company's assets do still outweigh all of their debts for 3 consecutive years analyzed, according to the debt to assets ratio. As for the debt-to-equity ratio, the situation is not so optimistic as the ratio is above one, suggesting that debt significantly outweighs equity of the company. However, the situation is slowly improving and Accor is returning to the pre-covid times.

The fact that the company was able to trade at a price that was just 1.6 times higher than their book value at the times of economic crisis, leads one to the conclusion that the company is doing an excellent job so far of getting the most out of their assets, despite the fact that their financial performance is far from being perfect. All in all, the situation with considering the company as a potential investing option is constrained by the problem with the P/E ratio, but this can one day be overcome. The author arrives at the same conclusion about the company's price per book value ratio as the other writers, who also arrived at the opinion that this ratio has a lot to do with liquidity. This conclusion is reached by the author (Moridipour, 2013). Hence, the author believes that investing in Accor now might be a good idea as the price of stock will go up in the nearest future, when the recovery will be performed.

5.2 Assessment of the financial performance of the company

The company's situation with financial performance is not categorized as good one. Of course, the year 2019 was the year when Accor was making net profit, but even then, this

net profit was relatively low with just 11% for the net margin. However, what happened in 2020 cannot anyhow be compared with even low positive net income in 2019, because the company experienced a tremendous net loss, from which there will be a really long recovery period. However, an improvement in net margin, gross margin and other margin of profitability suggests that the company is on the right track to continue their gradual development. After all, as other authors also believe, Accor was not the only company facing a similar consequence, but all hospitality companies found themselves in the same crisis (Sharma, 2021) and (Jelski, 2020).

Furthermore, comparison between Accor and other two selected giants of hotel industry – Marriott and Hilton suggests that Accor itself is not at all a bad investing option and despite the bad financial performance, the company might be considered a good option for long-term investment. Yes, in fact, the value for the P/E ratio is awful with 2500\$ needed for investors to get 1\$ in earnings per share, but this situation can be improved and indeed, it will be improved quite fast according to the growth rate of Accor’s revenue.

Table 13, comparison of companies' investing potential

Accor	<i>Undervalued and trading at the price significantly exceeding its earning value</i>
Marriott	<i>Overvalued</i>
Hilton	<i>Significantly overvalued and trading at the price exceeding its book value</i>

Source: own research based on the Yahoo Finance

All in all, the author believes that the financial performance in 2021 is still far from being perfect, but the company is on the right track.

5.3 Factors influencing the profit of the organisation

Of course, one of the most obvious external reasons influencing the profit of the organization is the pandemic and restrictions imposed by the central authorities. Yet, when talking about this factor, it is wise to understand that the situation that happened in 2020 is somewhat exceptional and it is not likely that it will repeat itself in the nearest future. Hence, it is essential to mention that the expansion of other services related to lodging and rental of apartments is a risk for Accor and similar companies. However, as other authors mention it, those companies will never ever be able to substitute hotels entirely, because Airbnb and similar platforms do not really have a luxury segment, compared to companies like Accor

(Zervas, 2017). However, the author of this research does not agree to it, and he believes that innovation is something that drives modern startups and also eliminates the old-fashioned concepts and companies, which cannot anyhow exist in the times where other entrepreneurs seek and exercise innovation. For this purpose, the author believes that the ongoing expansion of Airbnb and potential opening of new segments such as luxury lodging is something that Accor should fear, especially given its multinational nature of operations.

5.4 Identified potential problems

The author identifies that once certain issues, such as a decrease in the number of customers or bad investment decision, occur, the company will be forced to face a need to pay all of their obligations with the most liquid asset that they have, which is cash and its equivalents. According to the findings of the ratio study, there is no question that the firm has sufficient cash to meet all of its commitments; nevertheless, should something untoward occur, the business will be left with nearly little cash, which presents a chain of problems. Also, given the fact that Accor has recently already disposed a large amount of their cash into coming to grips with the effect of the pandemic, another time might be rather crucial for them.

In addition to this, it would be preferable to switch to the equity financing rather than to stay on the debt financing. This is because, given the overall increase in the interest rates all over the world, this type of financing will simply not be affordable for the company. Staying on the debt financing would be the less preferable option.

The author comes to the conclusion that, apart from the variables that have been discussed so far, the firm does not have any additional challenges, nor is it expected to confront any in the near future under the condition that pandemic has been gone once and for all.

6 Conclusion

In conclusion, the author is able to draw the following conclusions:

- 1) *The firm does have a good financial position but due to the pandemic, it experiences really serious problems with the financial performance. According to the author's projection and also according to the rate of recovery of Accor, this recovery is likely to finish in 2 years and the company will return to the same level of profitability in 2024.*
- 2) *Accor is a good investing option for the long-term investment because it has a good P/B ratio. P/E ratio is not good at all, but it is much easier to improve it with the surge in net income, which is expected to inevitably happen as the company escapes from the grasp of economic and financial recession. The author suggests that Accor's recent operations and new agreements on acquisitions is a good sign that the company is on the right track.*
- 3) *Although there do not seem to be any major issues or concerns with the firm, the author argues that making the transition to equity funding will be the safest option, especially given the unpredictability of the current market.*

In general, the author is of the opinion that the company is doing well in terms of all financial indicators apart from profitability, which is likely to improve in just a matter of years. Finally, the author believes that Accor is a good example of company operating in the hotel business.

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8 Appendix

Figure 15, Accor group income statement

Consolidated income statement

<i>(€ in million)</i>	Notes	2020	2021
Revenue	4	1,621	2,204
Operating expense	4	(2,012)	(2,182)
Recurring EBITDA	4	(391)	22
Depreciation and amortization		(274)	(249)
Recurring EBIT		(665)	(228)
Share of net profit/(loss) of equity-investments	6	(578)	(273)
EBIT including share of net profit/(loss) of equity-investments		(1,243)	(501)
Other income and expenses	7	(958)	554
Operating (loss)/profit		(2,201)	53
Net financial expense	11	(108)	(109)
Income tax	12	62	69
(Loss)/profit from continuing operations		(2,247)	13
(Loss)/profit from discontinued operations	3	257	77
Net (loss)/profit of the year		(1,990)	90
• Group share		(1,988)	85
from continuing operations		(2,244)	8
from discontinued operations		257	77
• Minority interests		(2)	6
from continuing operations		(2)	6
from discontinued operations		-	-
Basic earnings per share (in euros)			
Earnings per share from continuing operations		(8.69)	(0.10)
Earnings per share from discontinued operations		0.98	0.29
Basic earnings per share	13	(7.71)	0.19
Diluted earnings per share (in euros)			
Diluted earnings per share from continuing operations		(8.69)	(0.10)
Diluted earnings per share from discontinued operations		0.98	0.29
Diluted earnings per share	13	(7.71)	0.19

Source: Accor, 2022

Figure 16, assets of Accor

Assets

<i>(€ in million)</i>	Notes	Dec. 2020 (*)	Dec. 2021
Goodwill	8	1,786	2,158
Other intangible assets	8	2,751	2,908
Property, plant & equipment	8	242	230
Right-of-use assets	9	377	318
Equity-accounted investments	6	1,155	898
Other non-current financial assets	11	180	595
Non-current financial assets		1,335	1,494
Deferred tax assets	12	175	192
Contract assets	4	201	289
Other non-current assets		3	3
Non-current assets		6,869	7,591
Inventories	4	21	9
Trade receivables	4	534	697
Other current assets	4	222	256
Current financial assets	11	38	45
Cash and cash equivalents	11	2,474	1,666
Assets classified as held for sale	3	395	406
Current assets		3,684	3,079
TOTAL ASSETS		10,553	10,669

(*) Restated amounts following the purchase price allocation of sbe acquired in 2020 (see Note 8.1)

Source: Accor, 2022