



**Identifying opportunities  
in a changing market:**

**Exceptional Enterprises  
survey results**

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# About the Exceptional Enterprises survey

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Ernst & Young defines “Exceptional Enterprises” as companies that successfully address the six fundamental challenges facing their businesses. These include:

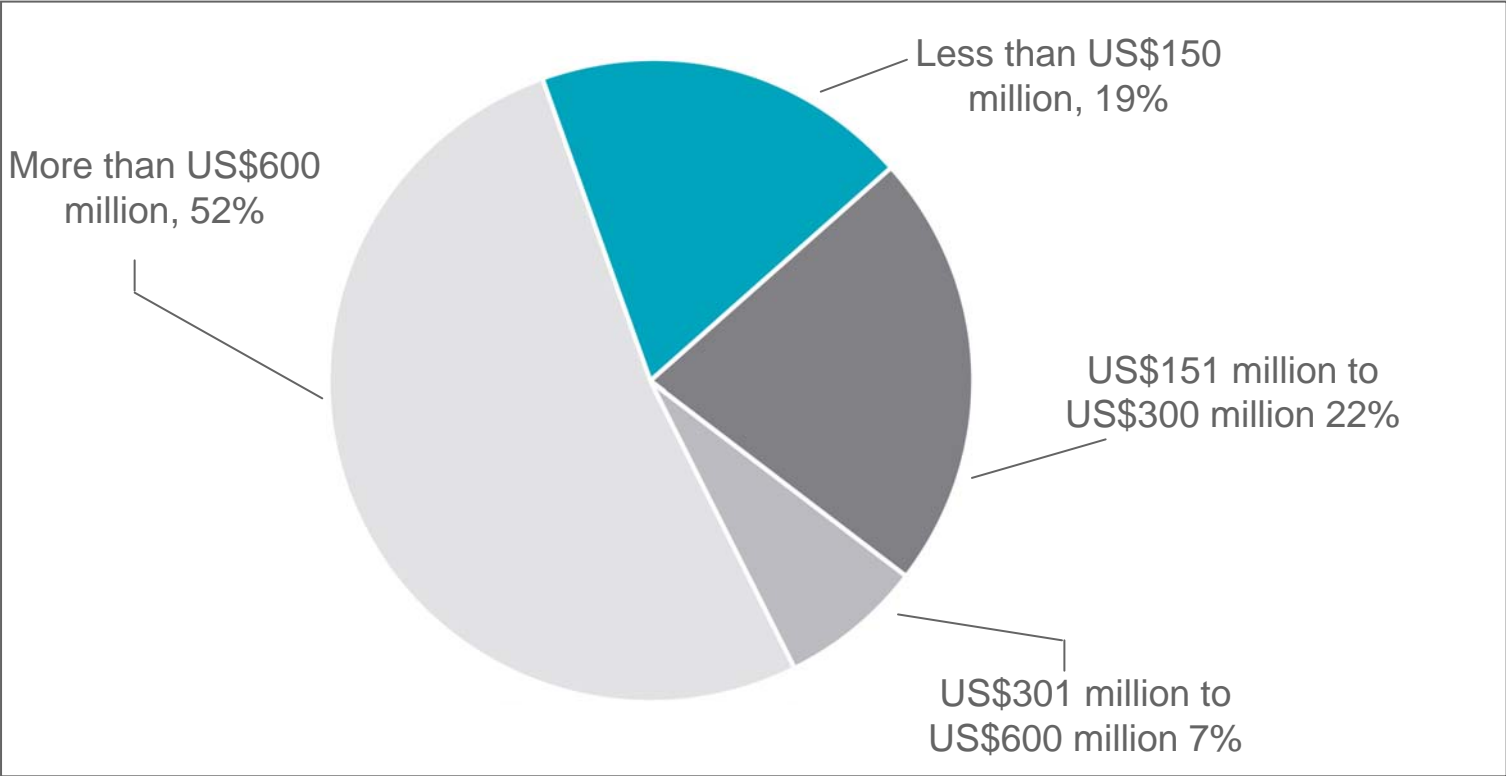
- ▶ Managing finance
- ▶ Managing risk
- ▶ Operational effectiveness
- ▶ Transactions and alliances
- ▶ Customer recruitment and management
- ▶ People recruitment and retention

Between December 2008 and February 2009, Ernst & Young polled hospitality companies to get their perspective on these and other issues that are significant to their business today. In the following summary, we share the responses of the survey participants, and give our perspective, based on the survey responses, client discussions, and our industry knowledge, as to what hospitality companies should do to be considered Exceptional Enterprises.

Respondents’ companies varied in revenue size from less than US\$150 million to more than US\$600 million. All respondents and their individual responses have been kept confidential.

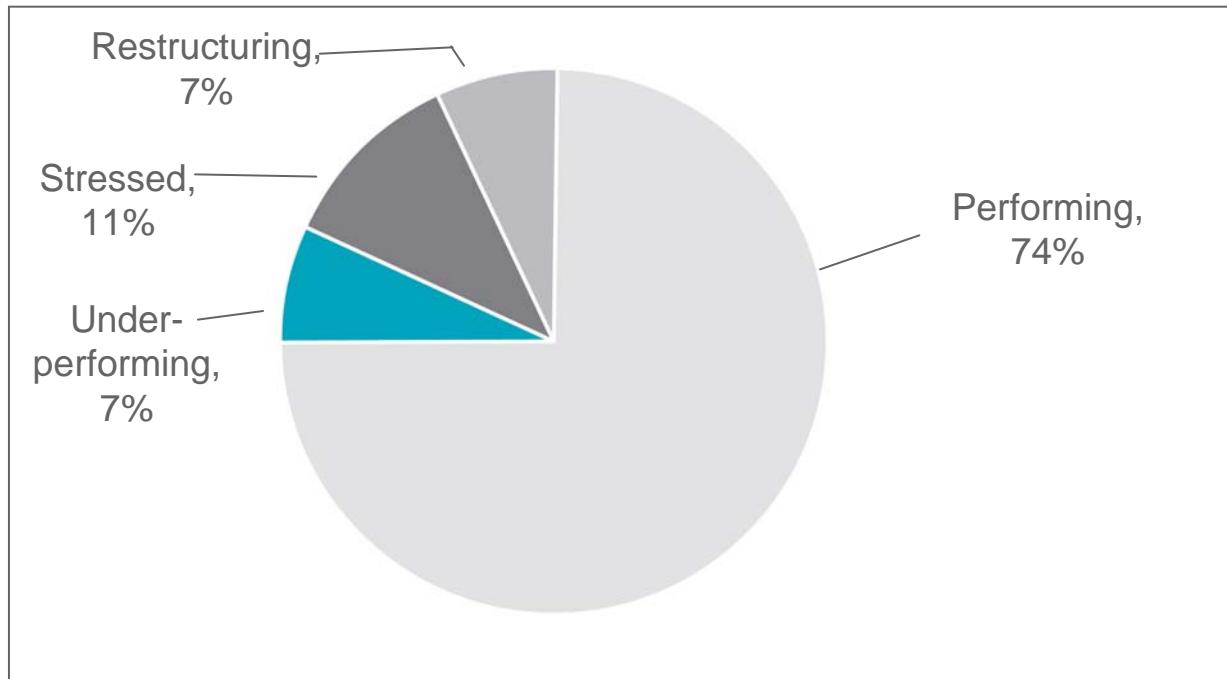
# Revenue generated per year

► Which best describes your company?



# Managing finance: financial situation

- ▶ How would you categorize your company's financial situation?

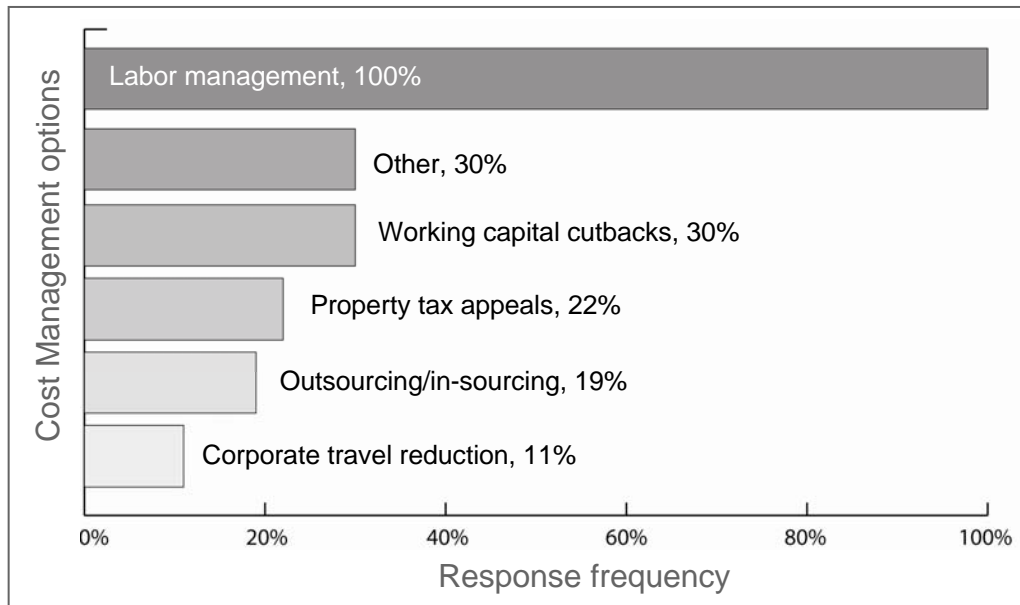


## Ernst & Young insights

- ▶ Exceptional Enterprises periodically stress test their portfolio of assets to determine their debt service coverage ratio based on a range of performance estimates and take into account capital events and other considerations.
- ▶ As lodging fundamentals continue to deteriorate, it is anticipated that more companies will begin to feel the stress of decreased revenues and bottom line.

# Managing finance: cost management strategies

- ▶ Select the two most important cost management strategies that your company is currently implementing or considering in the near term.

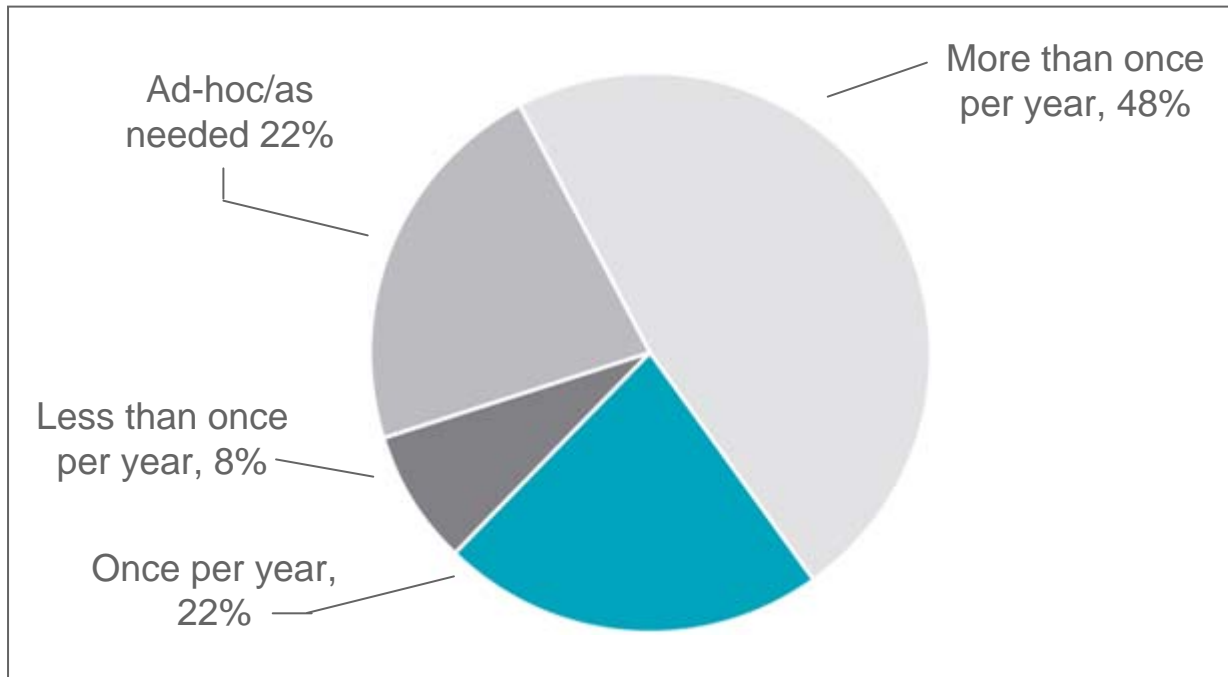


## Ernst & Young insights

- ▶ Exceptional Enterprises create a balance between service impact and cost savings.
- ▶ Labor management strategies, such as hiring freezes, layoffs and a reduction in hours, are being used by 100% of respondents as a cost management strategy.
- ▶ Respondents' lack of corporate travel reduction suggests that hospitality companies are still traveling to ensure quality of their assets as well as to look for new investment opportunities.
- ▶ Some additional cost management strategies noted include: reducing/freezing capital expenditures, working to reduce franchisor-related costs, rebidding contracts, eliminating nonessential programs and slowing timeshare development.

# Managing finance: accounting internal controls

- ▶ How often does your company formally test the effectiveness of accounting internal controls?

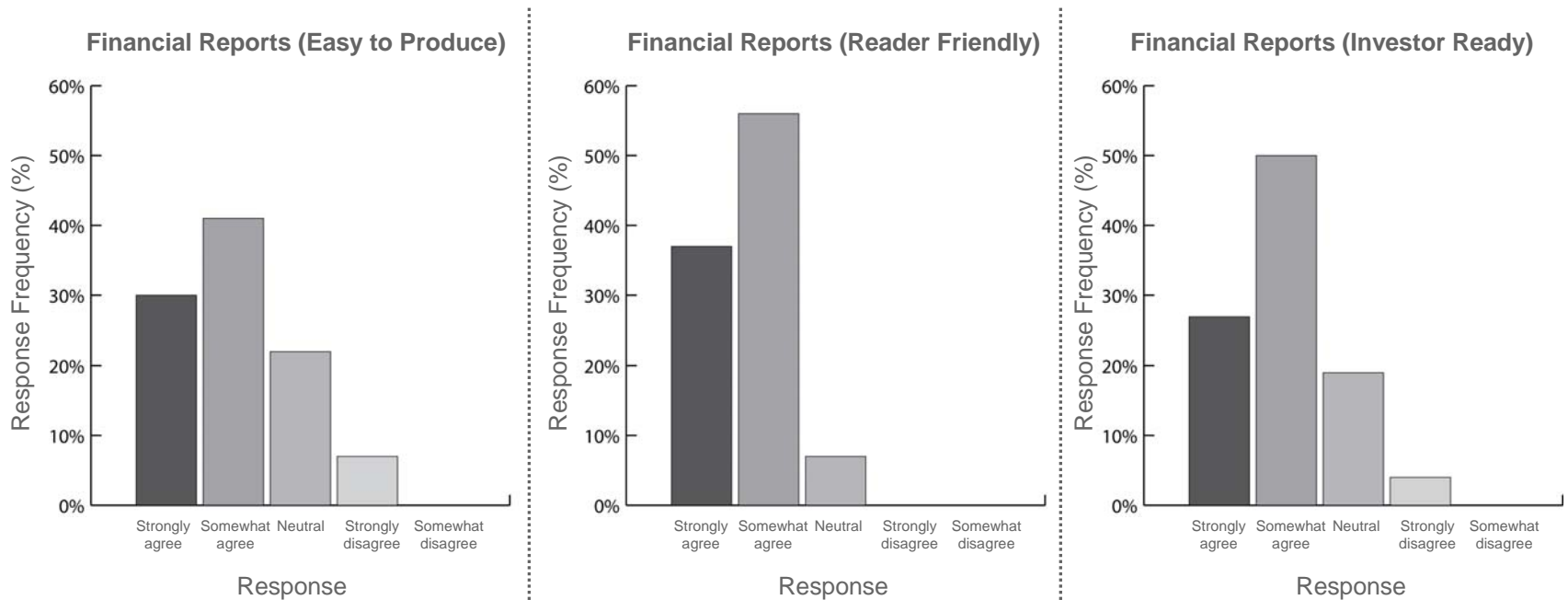


## Ernst & Young insights

- ▶ Exceptional Enterprises that can demonstrate excellent internal control procedures and financial reporting transparency are more likely to attract capital that is currently waiting on the sidelines.
- ▶ Insufficient testing of internal controls can lead to a misstatement of financials, fraud, and public relations issues.

# Managing finance: financial reports

- ▶ Would you agree/disagree that the financial reports used by your company are easy to produce and read, and in a format that can be easily shared with investors?

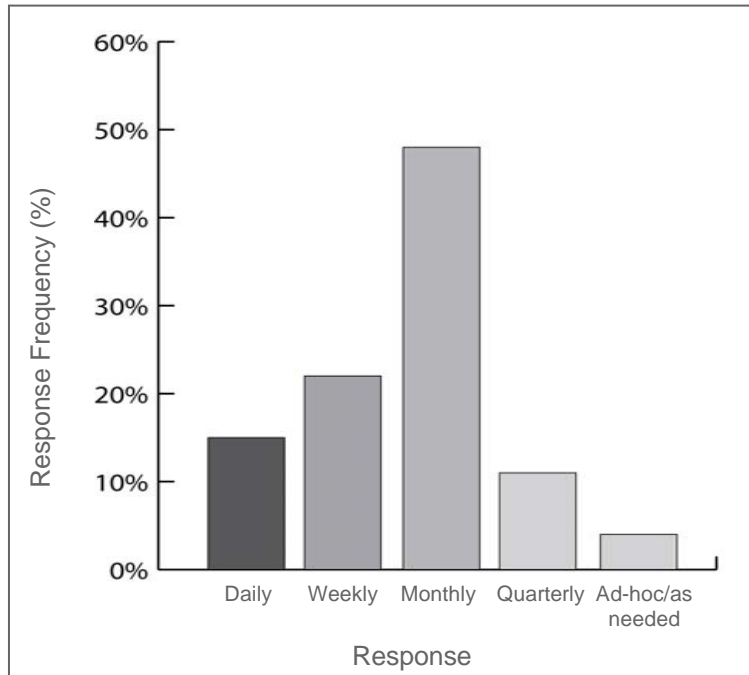


## Ernst & Young insights

- ▶ Exceptional Enterprises efficiently produce transparent financial reports for management and investors.

# Managing finance: financial report review

- ▶ Select how often your company formally reviews financial reports related to individual properties.

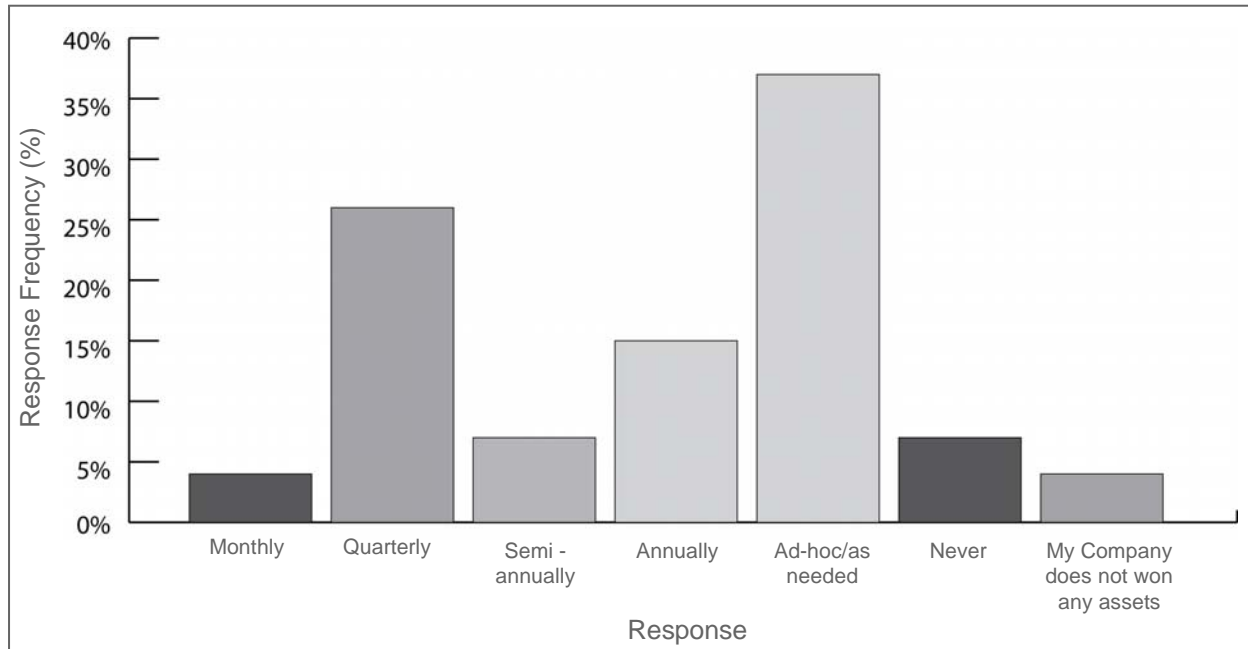


## Ernst & Young insights

- ▶ Exceptional Enterprises should consider more regular (i.e. weekly) review/monitoring of financial reports to mitigate significant economic stress and comparative lack of market visibility.
- ▶ Also, the content of reports and relevance to make important real-time management decisions may need to be modified.

# Managing finance: fair value review

- ▶ How often does your company formally perform fair value reviews of its owned assets?

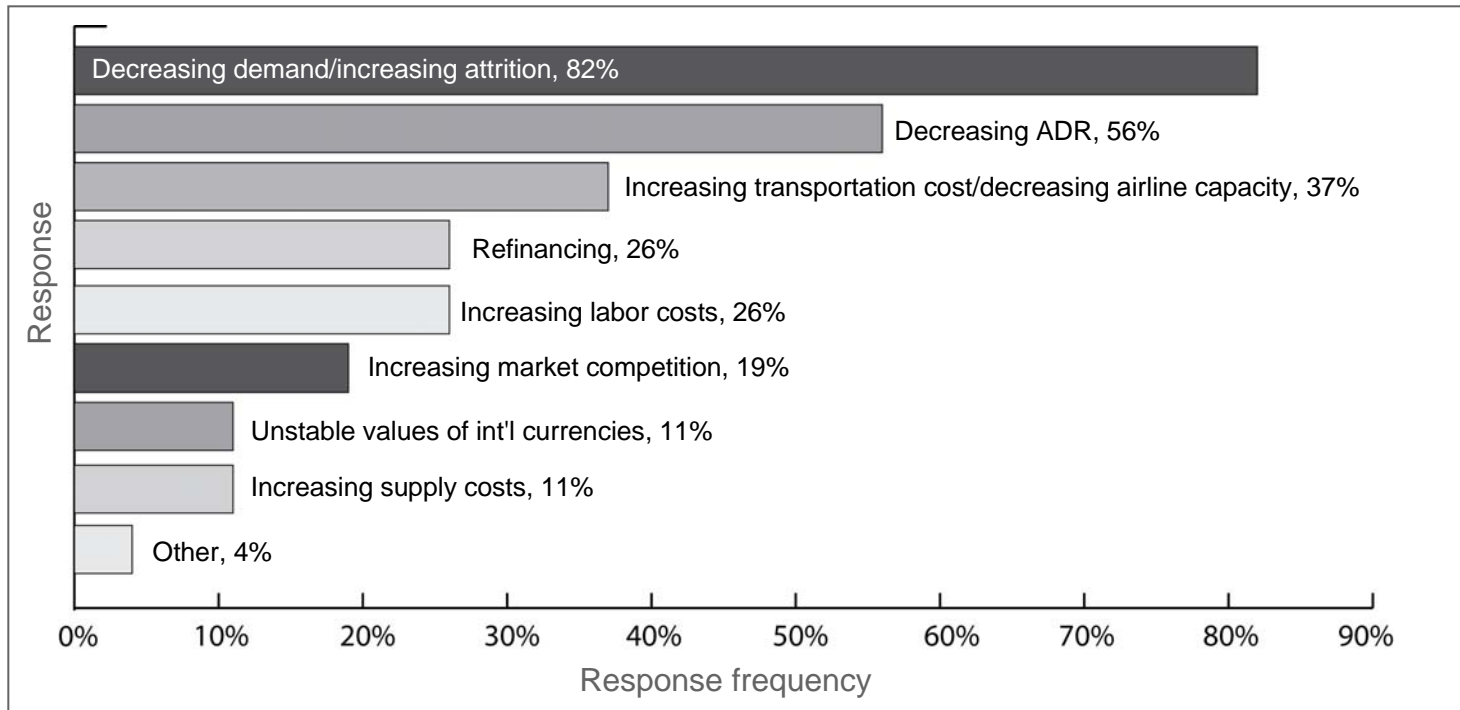


## Ernst & Young insights

- ▶ Exceptional Enterprises understand that fair value reviews are especially critical in a challenging economic environment.
- ▶ Fair value reviews of assets provides investors a sense of comfort and allows Exceptional Enterprises to attract additional capital.

# Managing risk: company challenges

- ▶ Please select the three greatest challenges your company faces in 2009 and 2010.

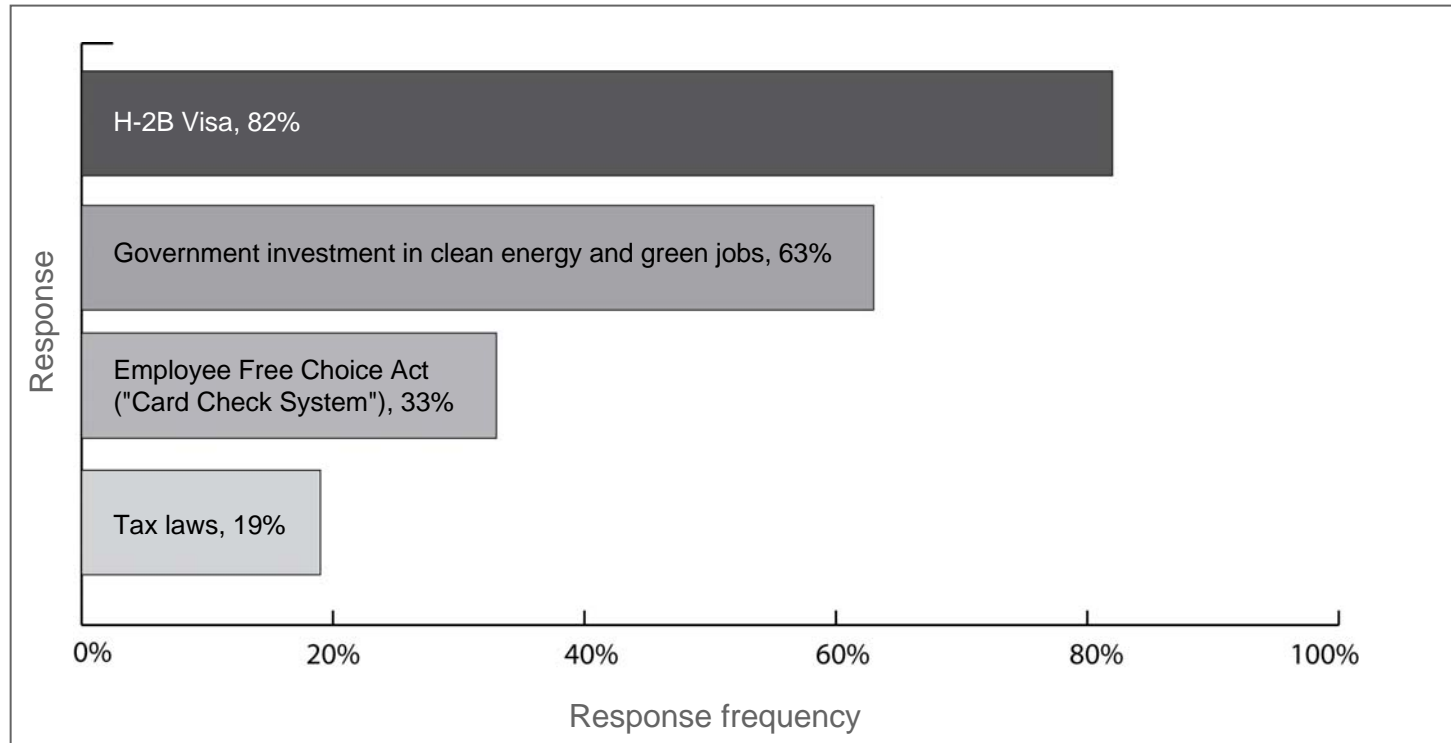


## Ernst & Young insights

- ▶ Exceptional Enterprises are focused on cost reduction and revenue enhancement measures to mitigate decreasing demand/increasing attrition.
- ▶ Exceptional Enterprises are performing thorough evaluations of the major cost components and processes to determine what improvements can be made.

# Managing risk: public policy issues

- ▶ Which two public policy issues have the greatest potential impact on the hotel industry?

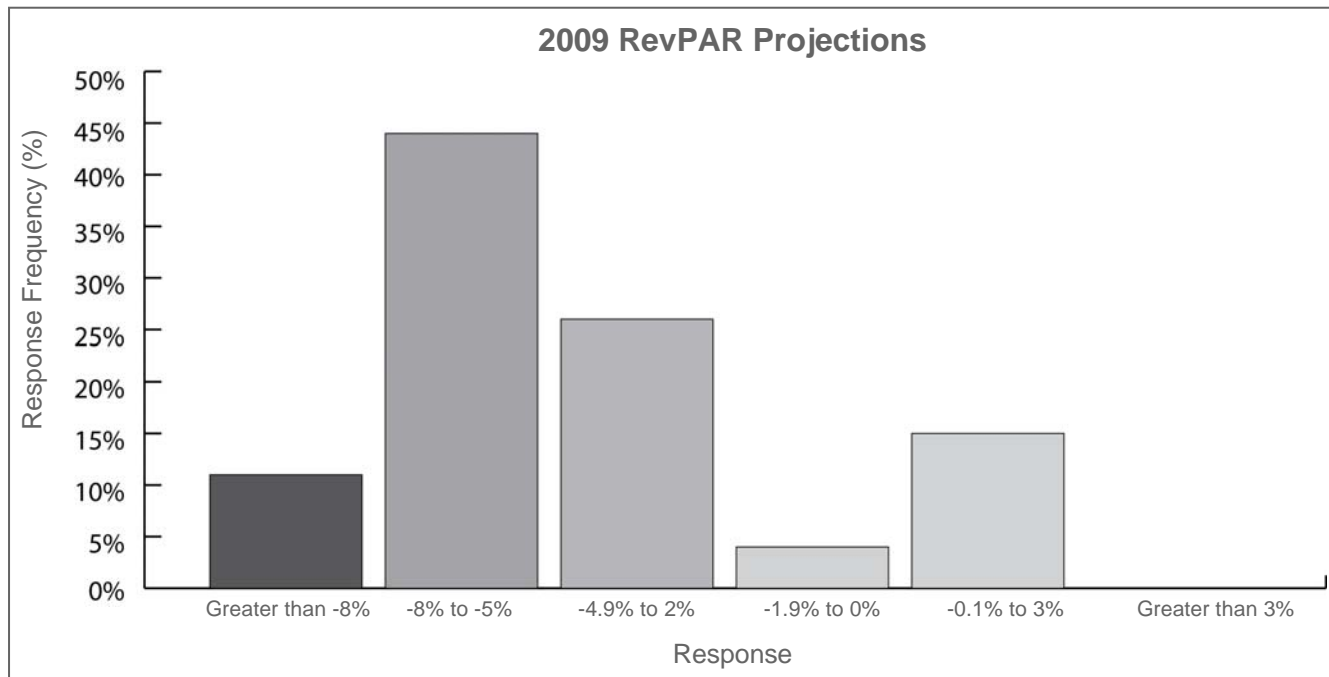


## Ernst & Young insights

- ▶ Exceptional Enterprises understand public policy and how it can affect operations, at the same time taking actions to address the impact of new legislation.

# Operational effectiveness: RevPAR growth

- ▶ What is your portfolio's outlook for revenue per available room (RevPAR) growth in 2009?

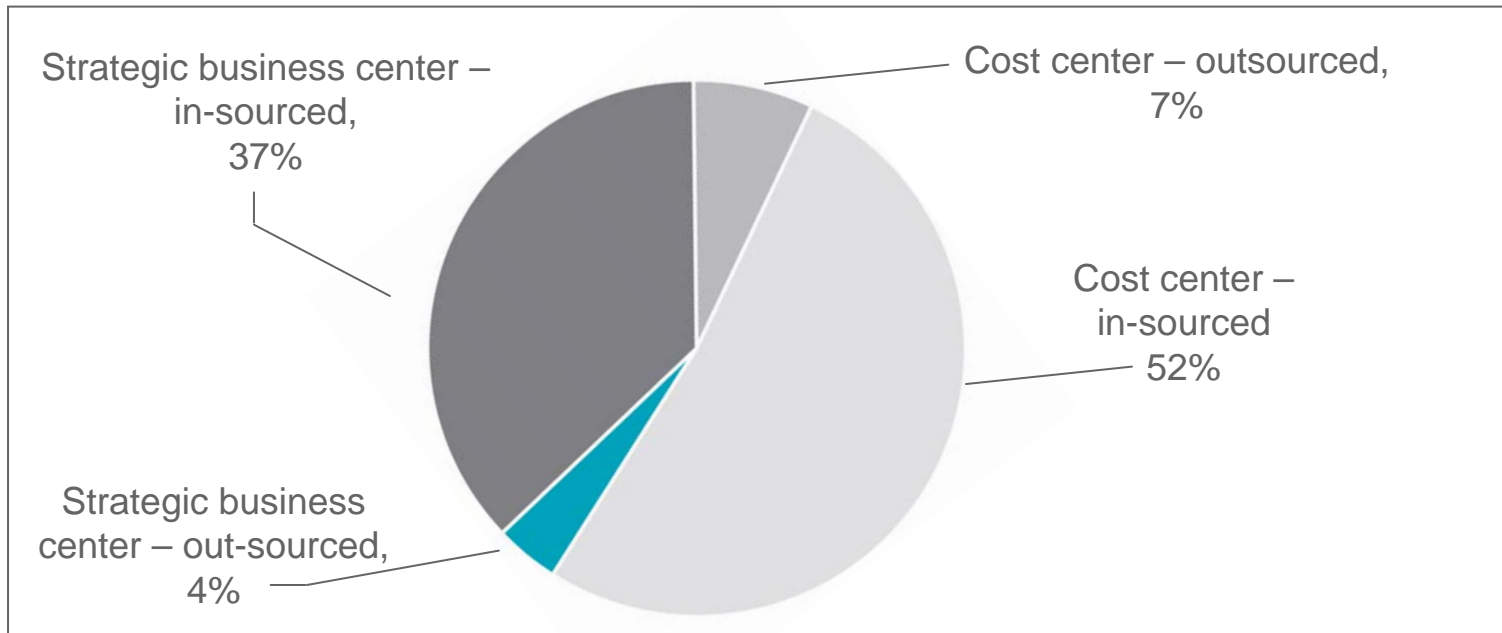


## Ernst & Young insights

- ▶ Exceptional Enterprises can capture/preserve the greatest amount of net operating income (NOI) by closely monitoring costs and thinking creatively about enhancing revenue.

# Operational effectiveness: IT organization/function

- ▶ Which best describes your company's information technology (IT) organization/function?

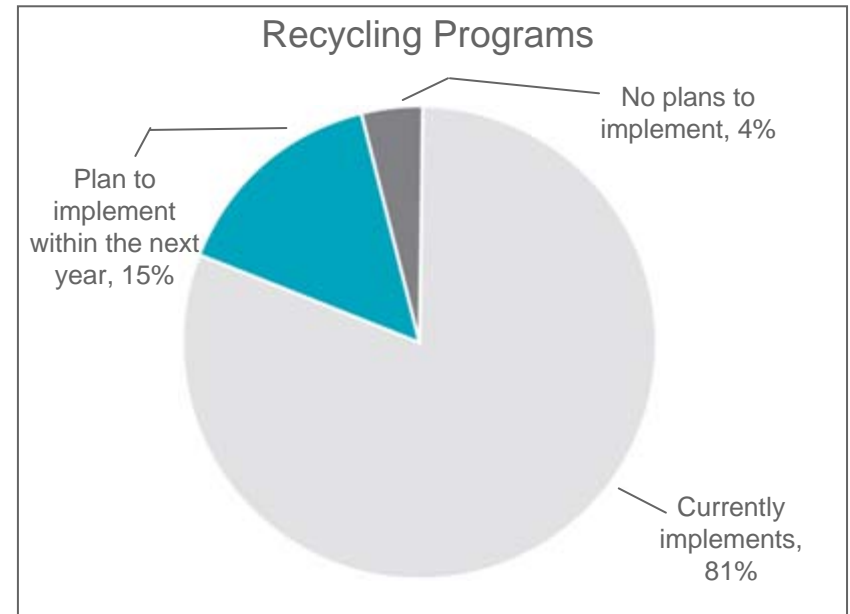
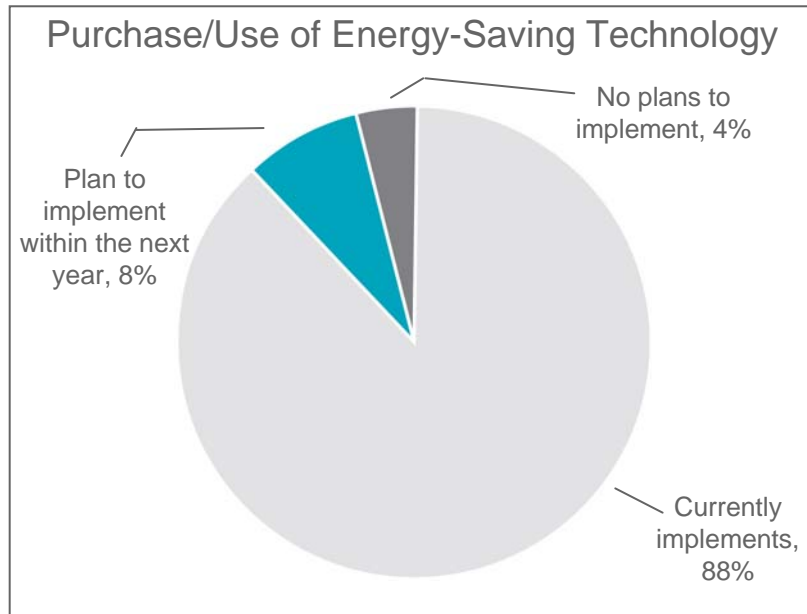


## Ernst & Young insights

- ▶ Exceptional Enterprises recognize the potential of IT to act as a strategic business center.
- ▶ Exceptional IT departments facilitate services such as business intelligence, revenue management and cost management that enhance the brand and product.

# Operational effectiveness: “green” initiatives

- ▶ Which “green” initiative(s) does your company employ?

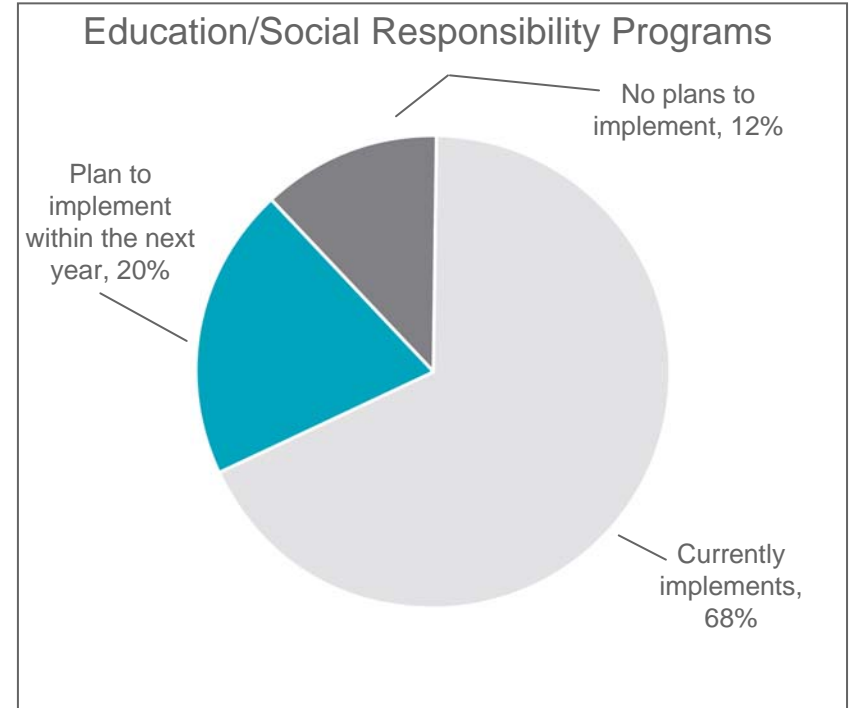
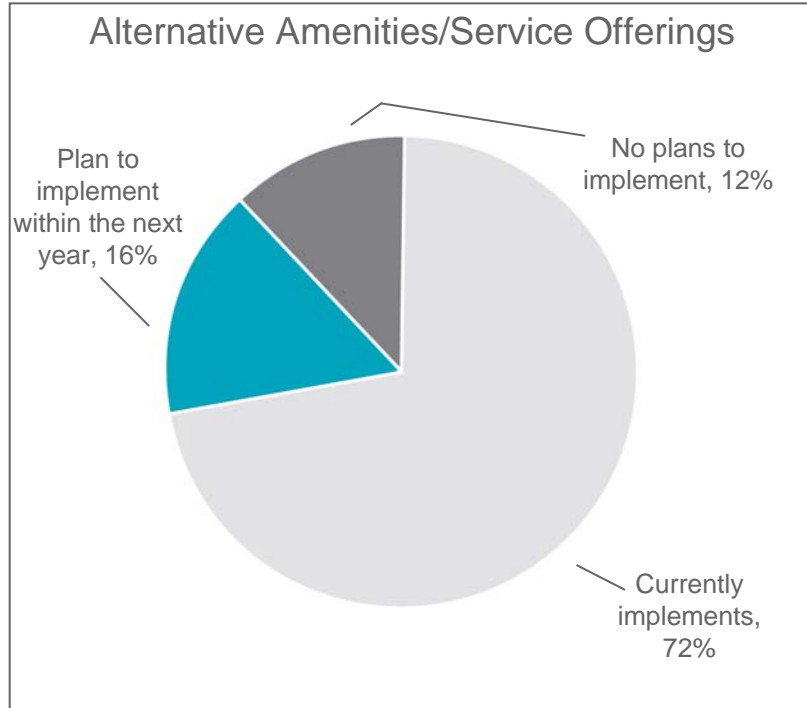


## Ernst & Young insights

- ▶ Exceptional Enterprises are implementing green practices in their hotels, such as recycling programs, while fewer respondents are implementing or planning to implement education/social responsibility programs.

# Operational effectiveness: “green” initiatives (continued)

- ▶ Which “green” initiative(s) does your company employ?

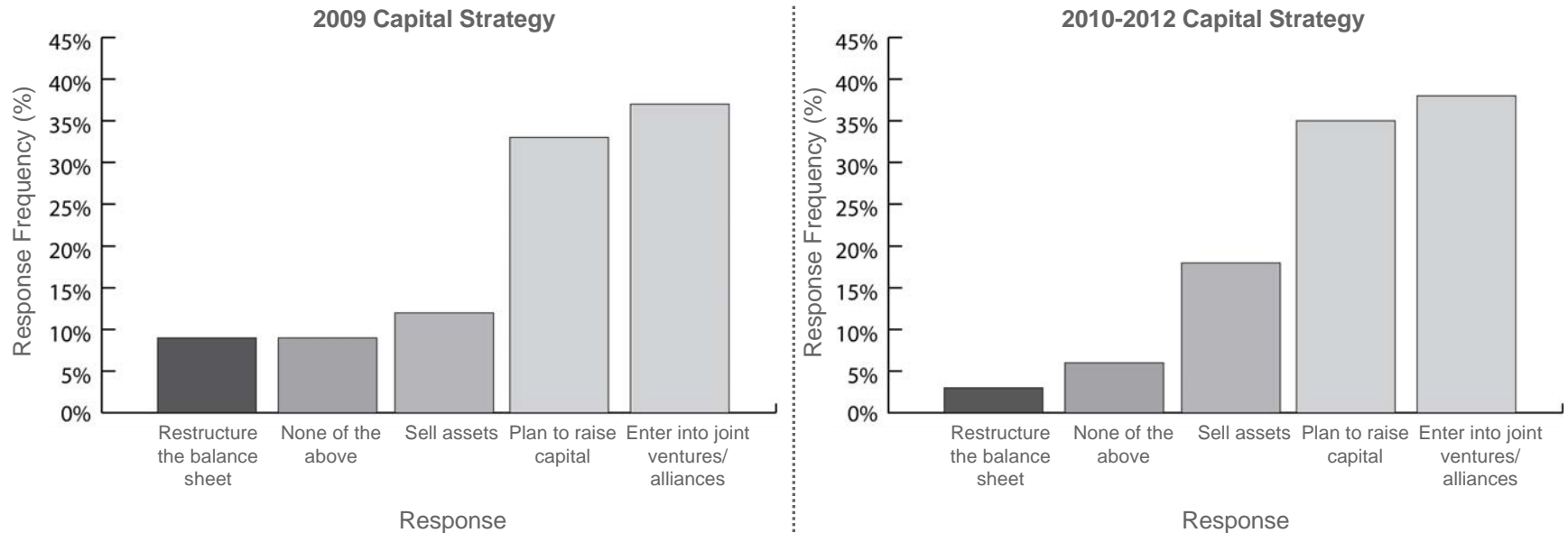


## Ernst & Young insights

- ▶ Exceptional Enterprises are exploring education and social responsibility programs. Such programs are becoming popular and important functions within their business.

# Transactions and alliances: capital strategy

- ▶ In light of the ongoing credit crisis, select the company's preferred capital strategy for the rest of 2009 and 2010 through 2012.

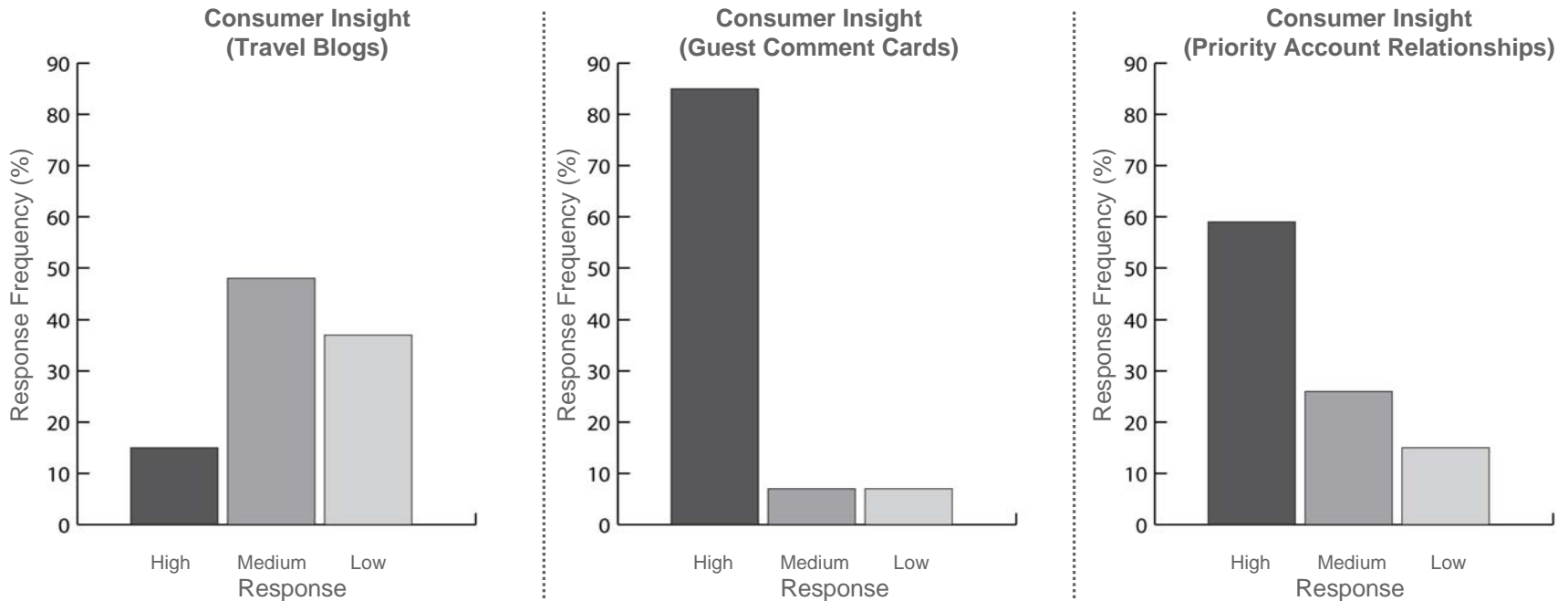


## Ernst & Young insights

- ▶ Exceptional Enterprises see the economic downturn as an opportunity, either through acquisitions or joint ventures/alliances.
- ▶ While 51% of respondents indicated they plan to raise capital in 2009, only 17% intend to sell assets, which has the potential to maintain the gap between bid and ask prices and ultimately keep transaction activity to a minimum.

# Customer recruitment and management: guest hotel experience

- ▶ Please rank by level of effort the manner by which you are gathering consumer insight related to your guests' hotel experience.

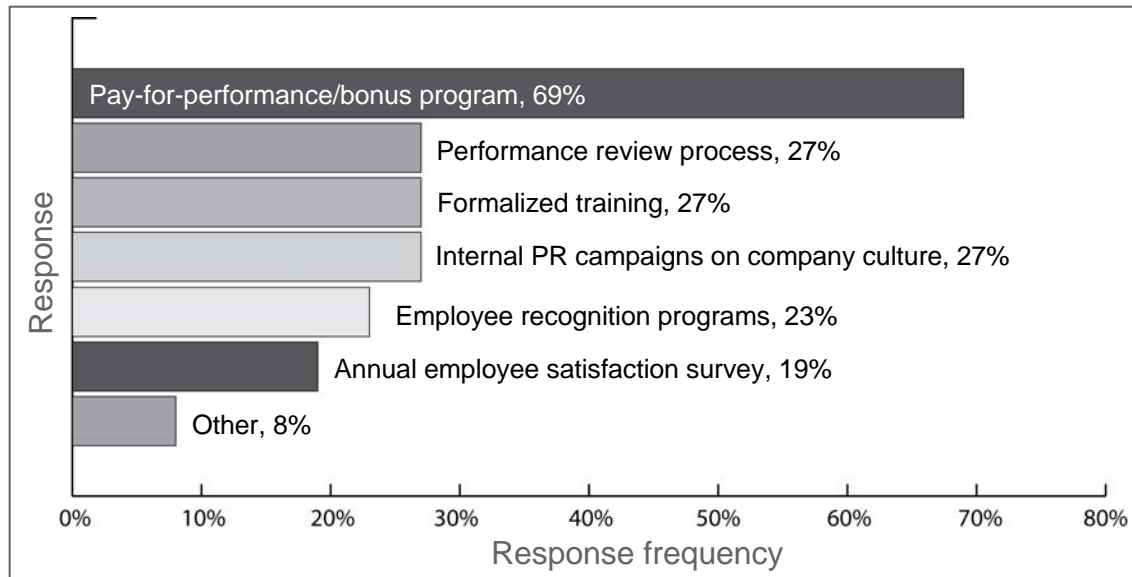


## Ernst & Young insights

- ▶ Exceptional Enterprises utilize IT to monitor consumer insight. For example, most companies find it beneficial to monitor guest comment cards electronically.
- ▶ The majority of respondents (59%) indicated that a high level of effort is given to managing priority accounts, while only 15% of respondents indicated that high effort is given to monitoring travel blogs.
- ▶ Exceptional Enterprises recognize the importance of travel blogs, as they are used in making travel decisions by younger generations

# People recruitment and retention: human resources policies

- ▶ Which two human resources policies do you believe have the greatest positive impact on the profitability of your company?



## Ernst & Young insights

- ▶ Exceptional Enterprises' use of pay-for-performance and bonus programs have a positive impact on the profitability of their company.
- ▶ While companies may not be in the financial position to provide pay-for-performance and bonus programs to motivate their employees, "soft" recognition such as performance awards can help demonstrate to employees that they are still appreciated by management.
- ▶ The ability of Exceptional Enterprises to understand Generation Y's and Millennials' need for a work-life balance will strengthen retention and performance.

# Services and Contacts

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## ***Exceptional Enterprises Advisory Services***

*Ernst & Young is providing Exceptional Enterprise Advisory Services to our owner, investor, and asset management clients to help them 1) maximize the value of their investment at the entity and asset level and 2) gain a public relations boost with stakeholders and investors from visibly addressing ways to improve enterprise and asset value.*

## ***Contact Information***

*Please feel free to contact either of the individuals below to discuss Ernst & Young services, the survey, or the insights of the survey.*

**Michael Fishbin**  
*National Director,  
Hospitality Advisory Services*

+1 212 773 4906  
michael.fishbin@ey.com

**Michael Magrans**  
*Senior Manager  
Hospitality Advisory Services*

+1 212 773 3750  
mike.magrans@ey.com