HOSPITALITY FINANCIAL MANAGEMENT

Agnes L. DeFranco & Thomas W. Lattin



JOHN WILEY & SONS, INC.

CONTENTS

	Preface	ix
	Acknowledgments	xi
1	Finance and the Hospitality Industry	1
	Introduction	5
	Hospitality Industry Financial Challenges	6
	Chapter Structure	8
	Chapter Topics	9
2	Financial Reporting	15
	Financial Reporting	17
	Accounting as the Language of Business	17
	Financial Statements	21
	Management Reports	25
	Accounting System—CP ³ System	38
3	Analyzing Financial Statements	53
	Analysis of Financial Statements	56
	Readers of Financial Statements	56
	Types of Analyses	57
	Management Decision Making	74
	Readers of Financial Statements Beware!	78
4	Managing Working Capital and Controlling Cash	91
	Managing Working Capital and Controlling Cash	94
	Working Capital	94
	Cash	97
5	Growing the Business	112
	The Need for Growth	115
	Shareholder Value	115
	Other Benefits of Growth	118

	Growth Strategies	120
	Increase Sales and Productivity of Existing Properties	120
	Expansion of Physical Facilities	122
	Franchise Brand Rights	123
	Secure Additional Management Contracts	124
	Mergers and Acquisitions of Competitors	125
	Going Public	125
6	Financing Growth	134
	The Need for Capital	138
	Capital	139
	Loan Terminology	145
	Types of Loans	147
	Sources of Loans	150
	Equity	153
	Hotel Financing Trends and Schemes	158
	The Golden Age of Hotel Financing	159
	Savings and Loans	159
	Investment Tax Credits	159
	Influx of Foreign Capital	159
	Accelerated Depreciation	160
	Real Estate Tax Shelters	160
	The Tax Reform Act of 1986	160
	The Resolution Trust Corporation (RTC)	160
	New Financing Schemes	161
7	The Time Value of Money	177
	Concept of Time Value of Money	179
	Time Value of Money	179
	Market Value	180
	Calculating Time Value of Money	182
	Time Period and Compounding	205
8	Investment Analysis	221
	Investment Analysis	223
	Weighted Average Cost of Capital (WACC)	224
	Discount Rate	225
	Capitalization Method of Valuation	226
	Investment Analysis Tools	227
	Factors Affecting Tools of Investment Decisions	236
9	Hospitality Industry Applications of Time Value of Money	
	Concepts and Skills	247
	Time Value of Money Applications	250
	Loan Questions	250
	Equity Questions	256

	Use of Sensitivity Analysis	258
	Hospitality Applications	259
4.0	Using ROI, NPV, and IRR	271
10	The Investment Package	286
	The Need for an Investment Package	289
	Executive Summary	291
	Fact Sheet	291
	Business Plan	294
	Source and Use of Funds	295
	Photographs or Renderings	297
	Third-party Confirmation	298
	Project Budget	298
	Qualifications of Project Team	301
	Investment Analysis	302
	Personal Financial Data	302
	Evaluation of the Investment Package Lenders: Debt	302 303
	Owner/Investor: Equity	303 304
	Owner Investor. Equity	504
11	Crafting and Negotiating the Deal	315
	The New Business Venture	318
	The Business Entity	319
	The Debt and Equity Mix	325
	Negotiating Loans with Lenders	325
	Principal	327
	Interest Rate	328
	Points Charged	328
	Additional Collateral	328
	Personal Guarantees	329
	Other Lender Issues	329
	Deal Sponsor's Goals	330
	Negotiating the Equity Investment	331
	Amount of Equity	332
	Percentage of Ownership	332
	Investor Hurdle Rates	333
	Exit Strategy and Decision-making Power on When to Sell	333
	Negotiating Skills Be Prepared	333 333
	Be Professional	334
	Use Proven Selling Skills	334
12	Tying It All Together	345
	Introduction	348
	Hospitality Industry Financial Challenges	348

Financial Reporting	349
Analysis of Financial Statements and Management Reports Analysis of Financial Statements Analysis of Industry Reports Applications of Financial Analyses	350 350 351 351
Managing Working Capital	351
Growing the Business Shareholder Value Increasing Shareholder Value Other Benefits of Growth Growth Strategies	352 352 352 353 353
Financing Growth Types of Capital Cost of Capital Mix of Capital	356 356 356 356
Investment Analysis The Time Value of Money Investment Analysis Methods Favorable or Unfavorable? Factors Impacting the Analysis Hospitality Industry Applications Debt and Equity Negotiations	357 357 358 358 359 359 359
The Investment Package What Lenders Want to Know What Equity Investors Want to Know	360 360 361
Crafting and Negotiating the Deal Business Decisions to Make Negotiating the Loan Negotiating the Equity Investment Negotiating Skills	362 363 363 363 363

Index

365