



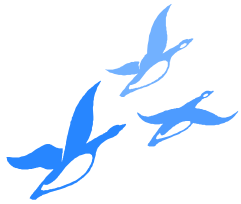
**European leader and global group  
in the world of travel, tourism  
and business services**



## **4 major global complementary activities**

---

- ▶ **Hotels: first hotel group in Europe and one of the leaders worldwide**
- ▶ **Travel Agencies: number two worldwide with Carlson Wagonlit Travel**
- ▶ **Car Rental: number two in Europe with Europcar**
- ▶ **Corporate Services: world leader in Service Vouchers**



# Hotels : 2,762 hotels - 303,777 rooms

## Covering all segments of market

---

*(as of May 31, 1999)*

### Business and leisure



**118 hotels**  
**(21,680 rooms)**



**318 hotels**  
**(48,735 rooms)**



**412 hotels**  
**(47,935 rooms)**



**116 hotels\***  
**(16,467 rooms)**

*\* included in Sofitel, Novotel and Mercure*

### Economy



**482 hotels**  
**(48,461 rooms)**



**190 hotels**  
**(13,998 rooms)**



**314 hotels**  
**(22,847 rooms)**

### United States



**790 hotels**  
**(85,375 rooms)**



# Hotels

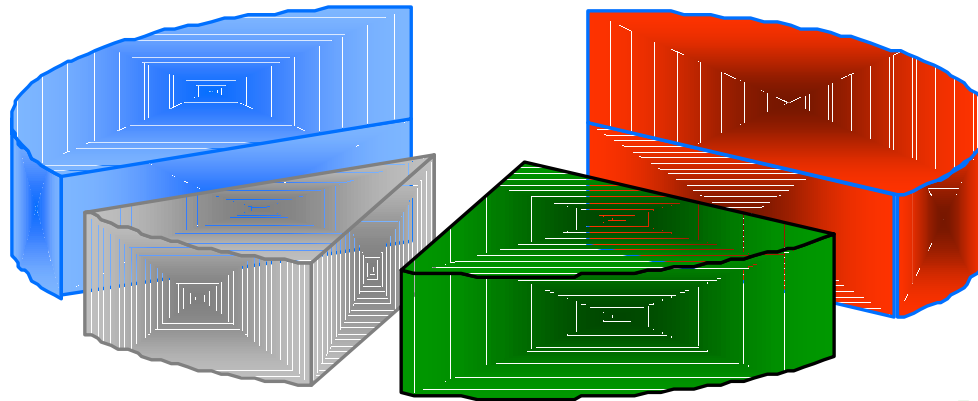
## First hotel operator in the world

---

*(as of May 31, 1999)*

**983 hotels  
Owned  
33% of total rooms**

**888 hotels  
Leased  
35% of total rooms**



**494 hotels  
Franchised  
13% of total rooms**

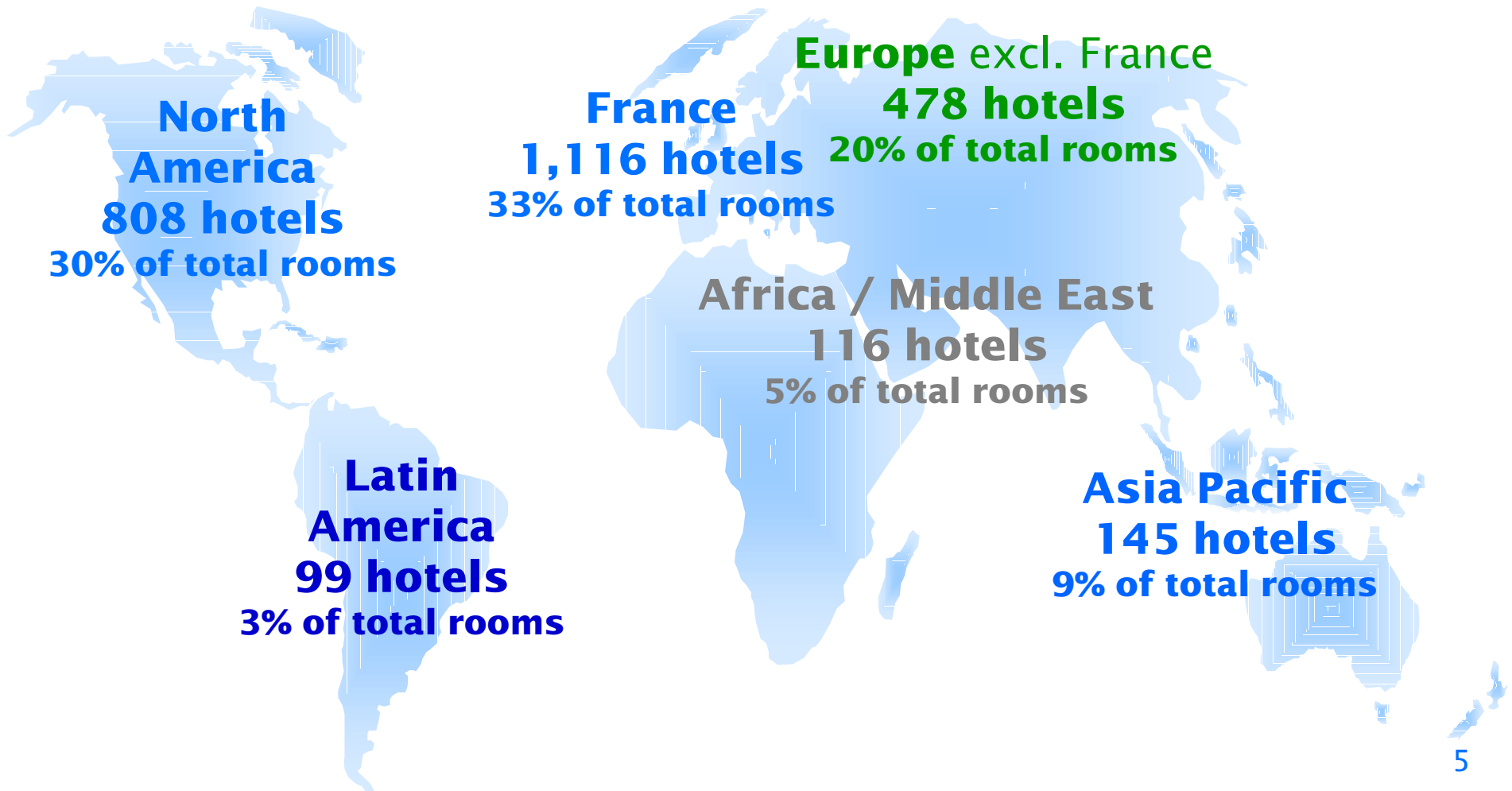
**397 hotels  
Managed  
19% of total rooms**



# Hotels

## Worldwide coverage

*(as of May 31, 1999)*





## **Growth of hotel activities**

---

- ▶ **Short-term objective : strengthen european leadership (capital investments)**
- ▶ **Reinforce worldwide leadership in economy segment**
- ▶ **Long-term objective : growth in emerging markets following pace of economic development (10-12% of total investments)**
- ▶ **Confirm ambitions in leisure and resorts hotels**
- ▶ **Reengineering program with Accor 2000 - Succeeding Together**



# Travel Agencies

---



- ▶ **Number two worldwide for business travel**
- ▶ **50% Accor - 50% Carlson**
- ▶ **140 countries**
- ▶ **Global account management of travel expenses for international companies**



# Car Rental

---



- ▶ **Number two in Europe**
- ▶ **50% Accor - 50% Volkswagen**
- ▶ **Fleet of 115,000 vehicles**
- ▶ **2,400 outlets in Europe and Middle East**



## Corporate Services

---



- ▶ **World leader in Service Vouchers with a market share of 46% on 4 continents (28 countries)**
- ▶ **More than 10.5 million daily users**
- ▶ **« Ticket Restaurant » and 11 other types of tickets**



## Key figures (1998)

---

*(in € million)*

<b>Consolidated sales</b>	<b>5,623</b>
<b>EBITDA</b>	<b>949</b>
<b>Profit before tax</b>	<b>496</b>
<b>Net income, Group share</b>	<b>297</b>
<b>EPS</b>	<b>8.3</b>
<b>Market capitalization</b> (July 12, 1999)	<b>8,700</b>

# **Acquisition of Red Roof Inns**





## **Acquisition of Red Roof Inns**

---

- ▶ **Chain of economy hotels throughout the U.S. (322 hotels / 37,005 rooms)**
- ▶ **Tender offer to acquire all outstanding shares (68.3% from Morgan Stanley investment fund)**
- ▶ **Enterprise value: \$1,115 million**
- ▶ **Multiple: X 7.35 estimated EBITDA 1999**
- ▶ **Immediately accretive**



Acquisition of Red Roof Inns - July 1999



## Economy hotels : Accor core business

---

▶ **Well-established brands and products:**



▶ **Number of hotels**

**1,776 hotels**  
**56% of the portfolio**

▶ **Presence**

- Europe	<b>930 hotels</b>
- North America	<b>790 hotels</b>
- Emerging countries	<b>56 hotels</b>

▶ **Development strategy: developed countries and emerging countries (Central Europe, South America, South Africa and Asia Pacific)**



## **Competitive advantage of Accor**

---

- ▶ **Unique expertise : control of building costs and management**

**Example: the largest economy hotel combining Formule 1 and Etap hotel in Paris (850 rooms)**

- ▶ **High profitability and less cyclical:  
ROCE already over 15% for Ibis, Etap Hotel  
and Formule 1**



## **Reinforcing the Accor presence in the US, world's largest hotel market**

---

### **With Red Roof Inns:**

- ▶ Increase from 17 to 22% of Accor consolidated percentage of sales in the US**
- ▶ 10% share of the US economy hotel market**



## **Complementarities between Motel 6 and Red Roof**

---

**Integration of Motel 6 and Red Roof Inns networks  
within « Accor Economy Lodging » with strong  
complementarities:**

- geographical**
- products**
- client mix**

**which generate important synergies**



## Summary

---

- ▶ **Description of target company**
- ▶ **Strategic rationale**
- ▶ **Description of transaction**
- ▶ **Impact for Accor**

# Description of Target Company





## **Hotel Portfolio at June 30, 1999**

---

- ▶ **“Upper Economy” category**
- ▶ **Portfolio at June 30, 1999**

	<b>Hotels</b>	<b>Rooms</b>
<b>Owned</b>	<b>258</b>	<b>29,907</b>
<b>Franchised</b>	<b>64</b>	<b>7,098</b>
	<hr/>	<hr/>
<b>Total</b>	<b>322</b>	<b>37,005</b>

- ▶ **Recently renovated network; very good customer awareness**
- ▶ **Hotels primarily located in the Midwest, East Coast and South**



Acquisition of Red Roof Inns - July 1999

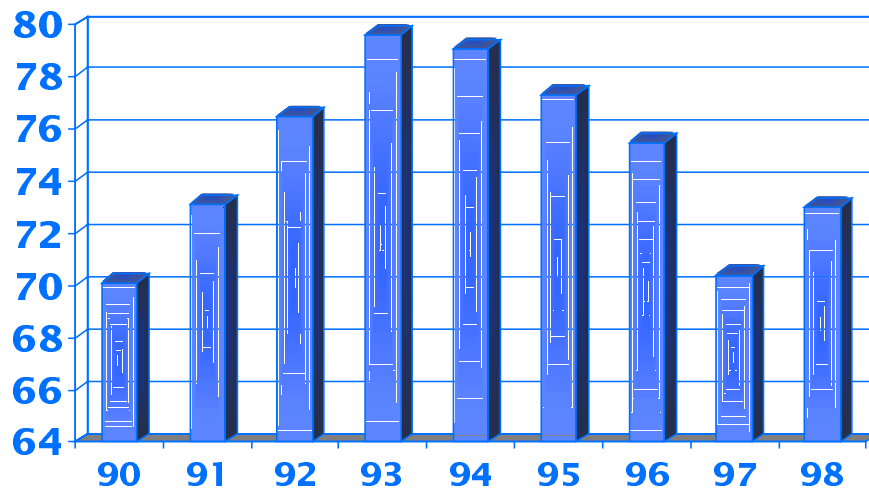




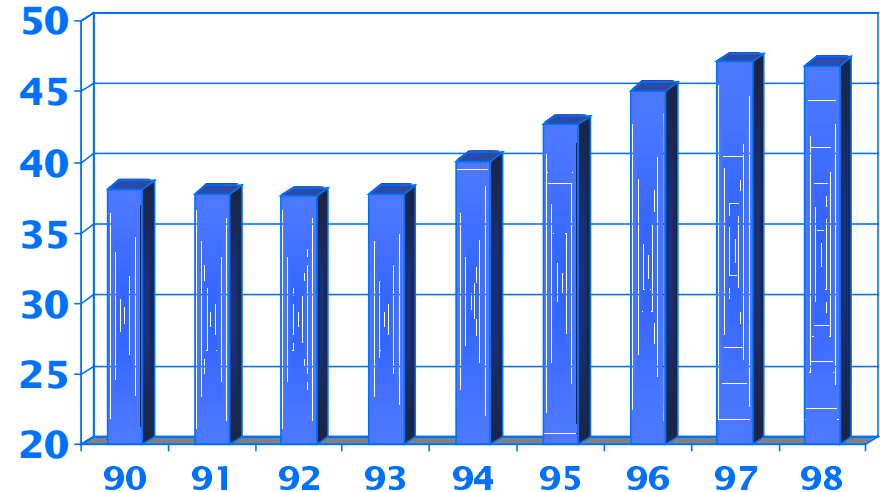
## Performance of Red Roof Inns

- ▶ **Occupancy rate in excess of 70%, even at the bottom of the cycle (vs. less than 60% for the Economy segment as a whole)**

**Occupancy rate (%) \***



**Average room rate (\$) \***



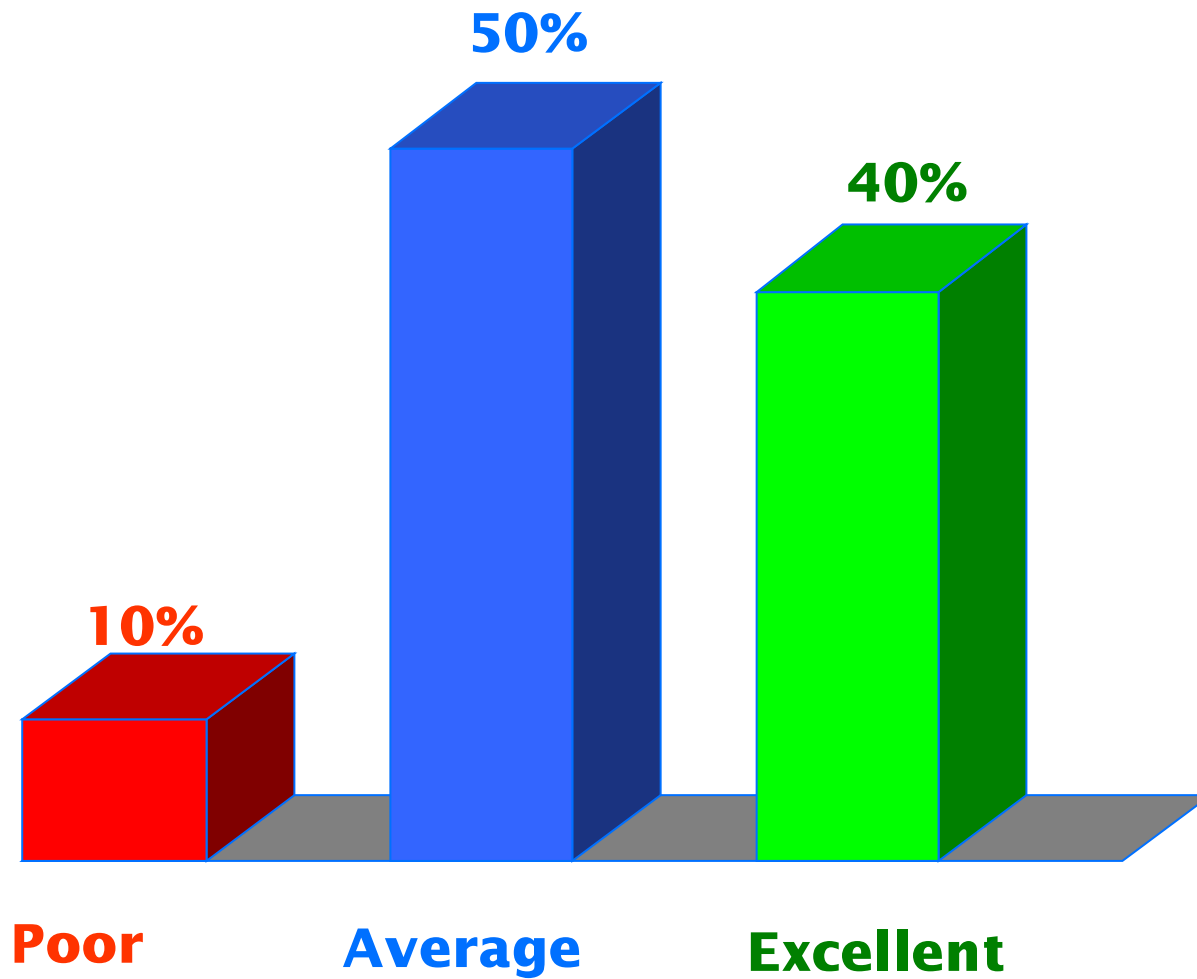
*\* Excluding hotels opened in past 18 months*

- ▶ **Average RevPAR growth rate over period: +3%**



## Satisfaction ratings Year end 1998

---

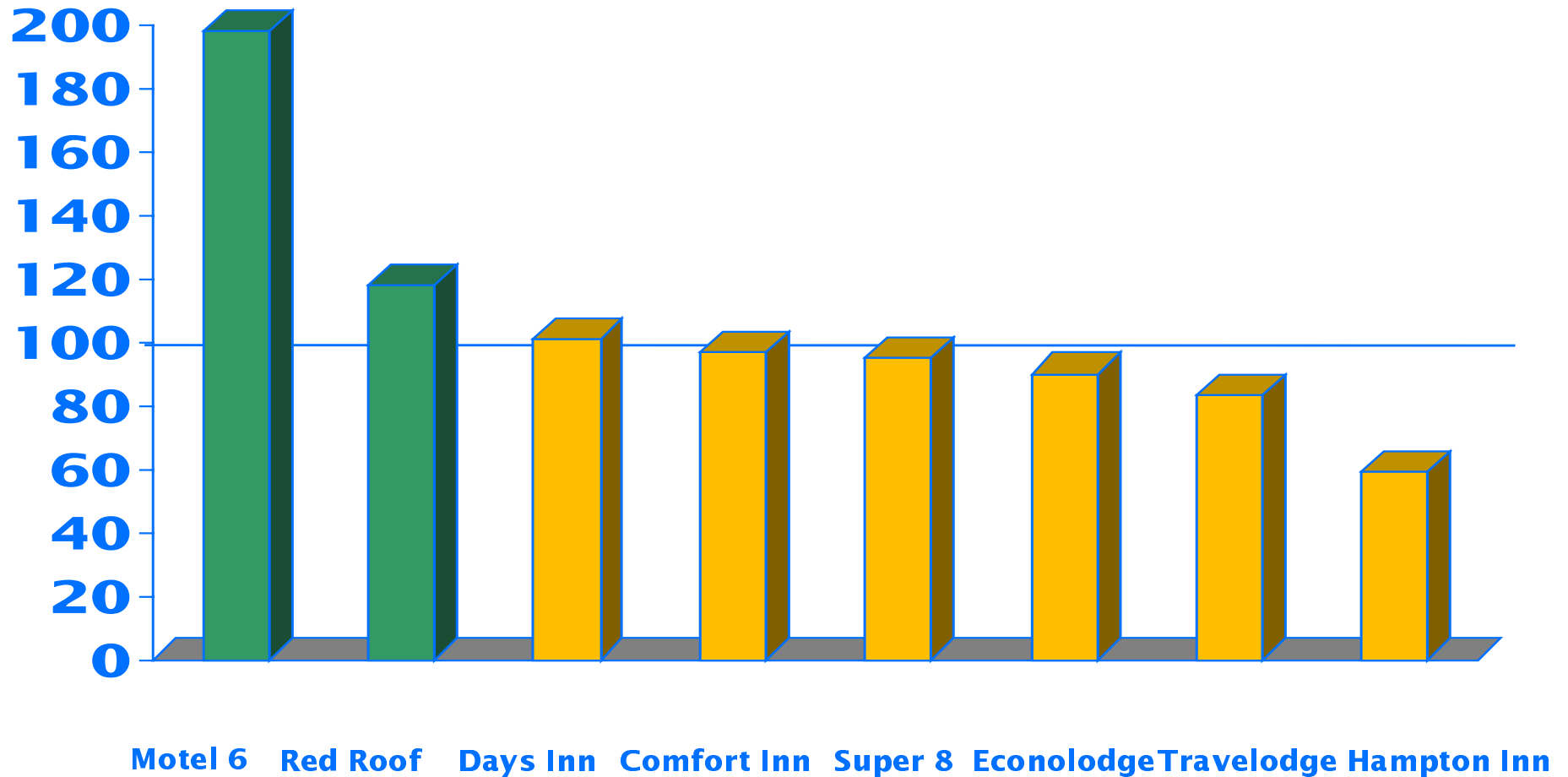


Source : DK Shifflet and Associates

Acquisition of Red Roof Inns - July 1999



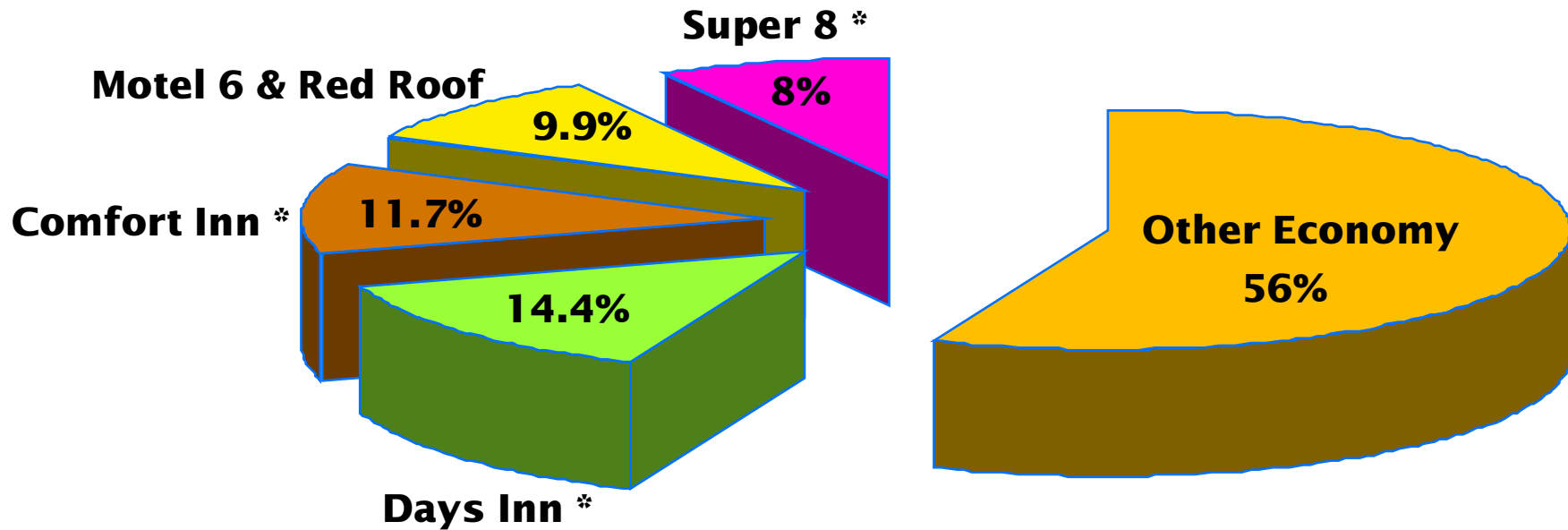
## Relative awareness index Year end 1998



Source : D.K. Schifflet



## Motel 6 and Red Roof: close to 10% market share in the economy segment



\* Franchises

Source : D.K. Shifflet December 1998

Acquisition of Red Roof Inns - July 1999



## Red Roof Inns key figures

---

<b>(\$ million)</b>	<b>1998</b>
<i>Occupancy rate</i>	<b>73%</b>
<i>Average room rate</i>	<b>\$ 46.8</b>
<b>▶ Revenues</b>	<b>375.3</b>
<b>▶ Gross Operating Profit</b>	<b>149.3</b>
<i>Operating margin</i>	<b>39.8%</b>
<b>▶ EBITDA</b>	<b>146.5</b>
<b>▶ Net Income</b>	<b>34.1</b>

# Strategic Rationale





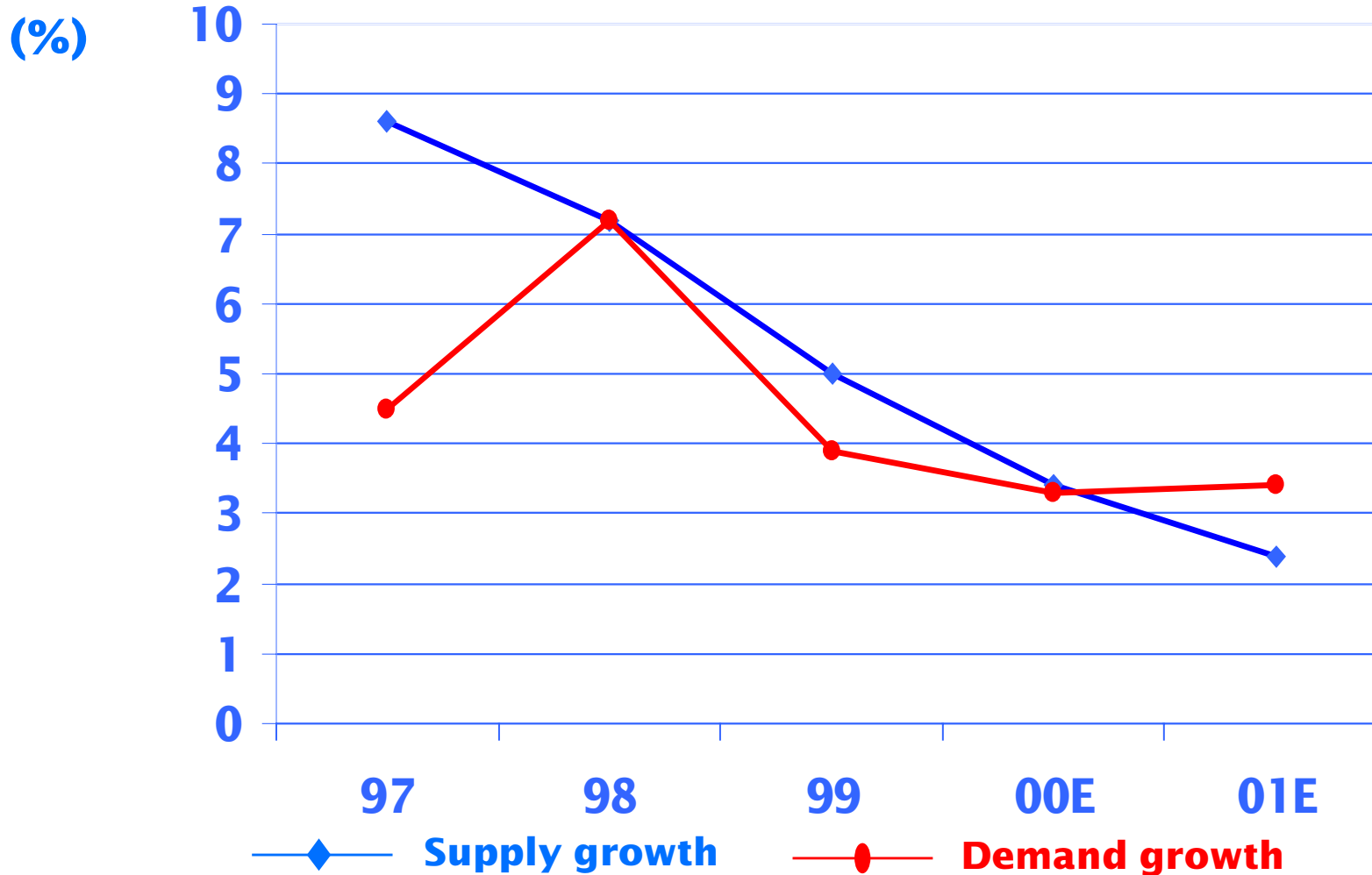
## **U.S. : the world 's largest hotel market**

---

- ▶ **1/3 of worldwide room capacity**
- ▶ **Slowdown of supply growth in the economy segment**



## U.S. supply/demand cycle in the economy segment

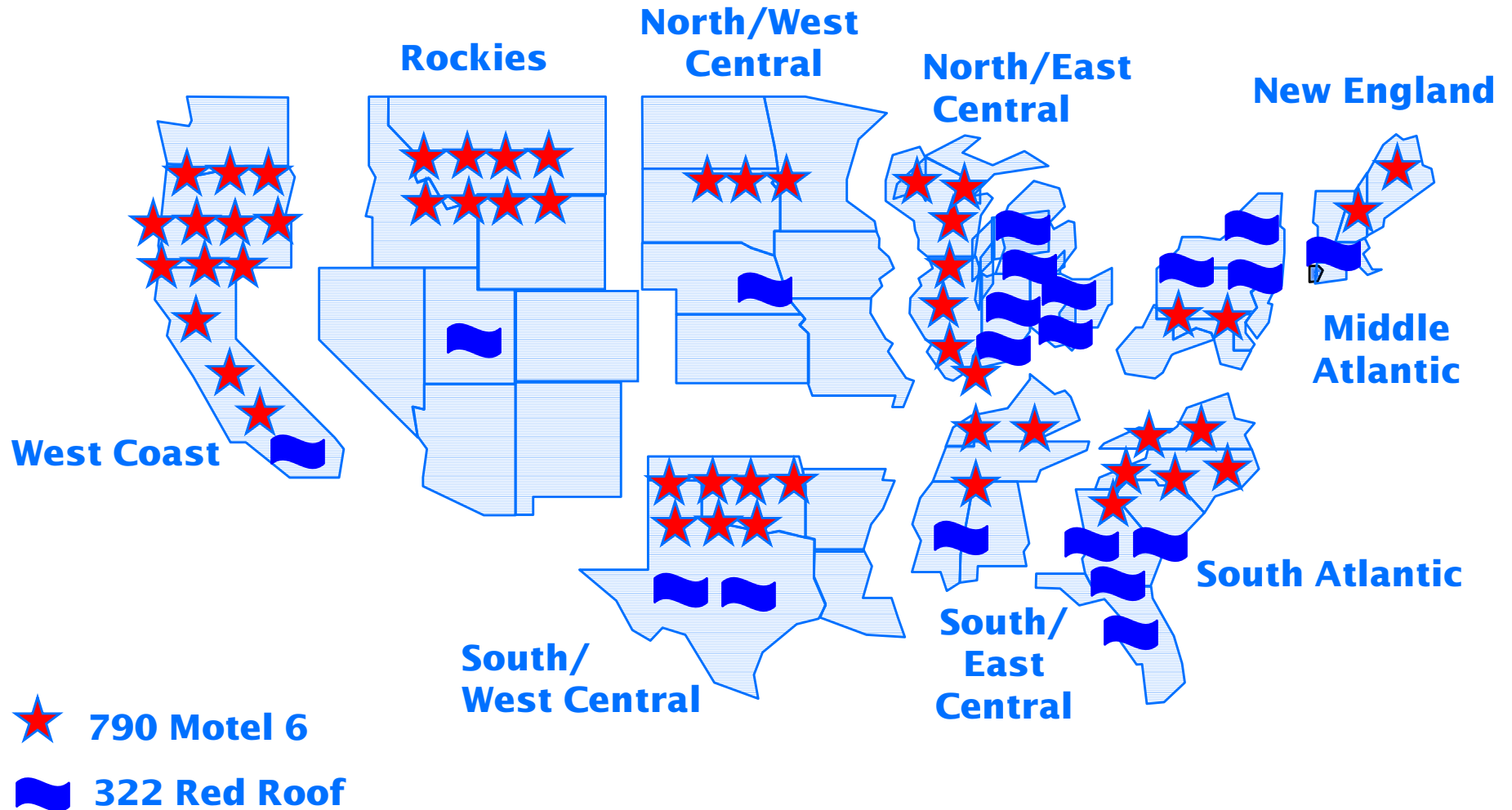


Source: PriceWaterhouse Coopers March 1999

Acquisition of Red Roof Inns - July 1999

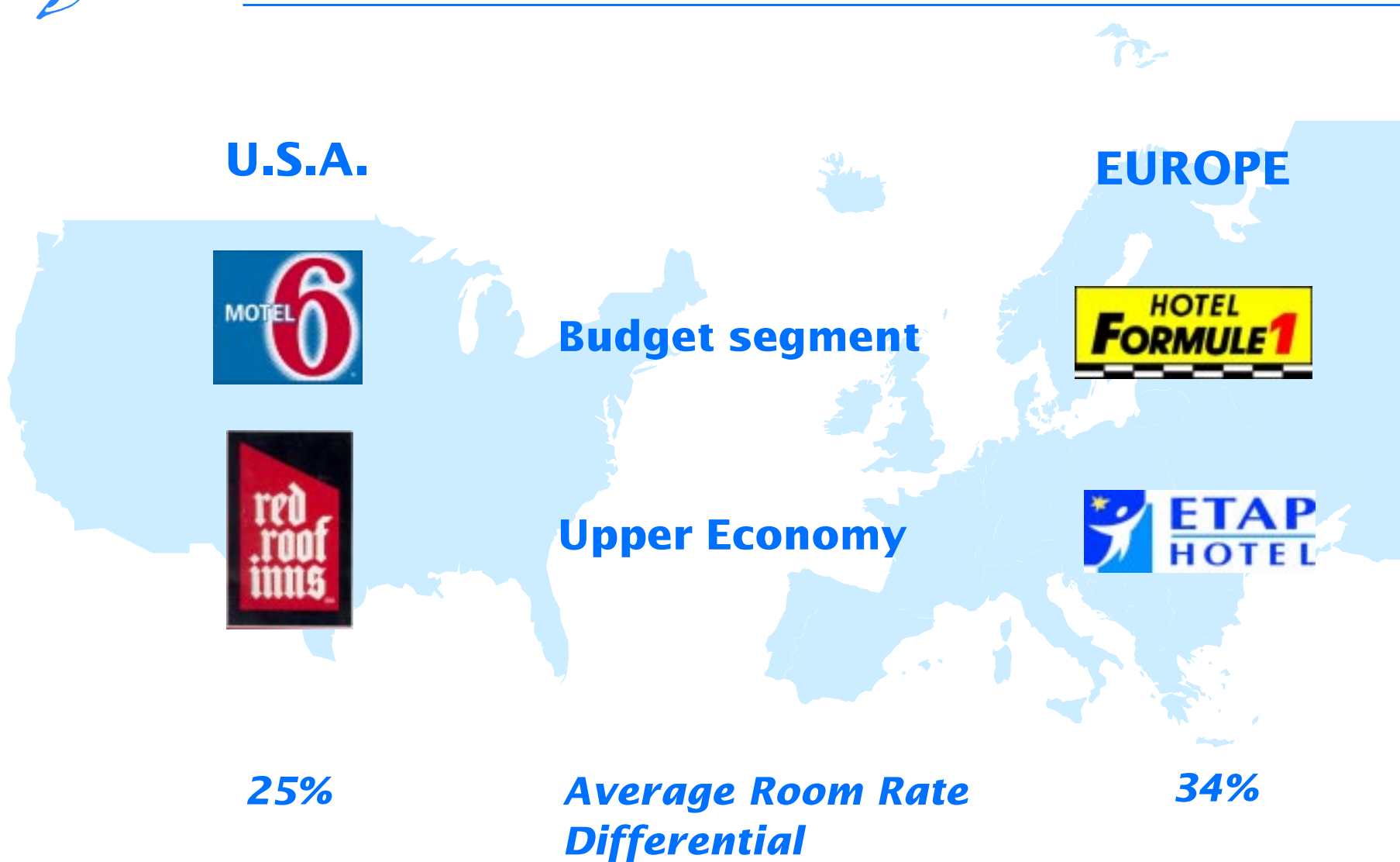


# Geographical fit Motel 6 / Red Roof Inns





# Brand fit



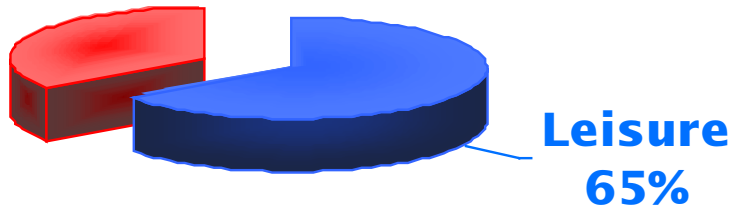


# Fit of customer mix

---

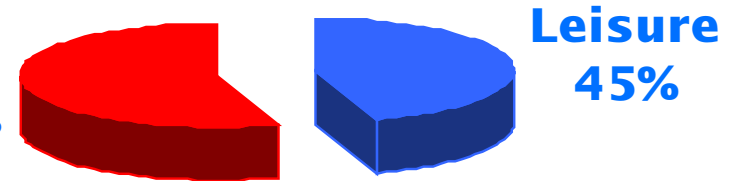
## MOTEL 6

**Business**  
35%



## RED ROOF

**Business**  
55%





## **Operating integration and synergies**

---

- ▶ **Integration of Motel 6 and Red Roof Inns within « Accor Economy Lodging »**
- ▶ **Similar hotel concept « Limited Service »**



## **Synergies measurable in short and medium-term**

---

- ▶ **Savings on overhead: \$10 million**
  
- ▶ **Improved operating margin:  
2 points of Gross Operating Profit, i.e. \$10 million**

**... \$20 million per year**



## **Other optimization**

---

- ▶ **Pricing policy on a local basis**
- ▶ **Reservation systems / I.T.**
- ▶ **Purchasing and partnerships (Vendor's Program)**
- ▶ **Business development (including franchise)**
- ▶ **Optimization of the two brands throughout networks**

# **Description of Transaction**





## Description of transaction

---

- ▶ **Tender offer for all outstanding share at a price of \$22.75 per share versus \$17.85 (average past 30 trading days), i.e. a premium of 27.5%**
- ▶ **Commitment to tender from the majority shareholder (Morgan Stanley Real Estate Fund): 68.3% of share capital**



## 12 month share price



- ▶ **Acquisition of Red Roof Inns by Morgan Stanley in 1993**
- ▶ **1996 IPO : 35.2% of Red Roof Inns at \$16 per share**



## **Cost of acquisition (1)**

---

<b>Number of shares (March 31, 99)</b>	<b>26.96 million</b>
<b>Offer price per share</b>	<b>\$ 22.75</b>
<b>Total price of shares</b>	<b>\$ 613 million</b>
<b>Net debt</b>	<b>\$ 502 million</b>
<b>▶ Enterprise value</b>	<b>\$ 1,115 million</b>



## **Cost of acquisition (2)**

---

<b>Multiple of EBITDA 1999(e)</b>	<b>X 7.35</b>
<b>Multiple of EBITDA 2000(e)</b>	<b>X 6.59</b>
<b>ROCE of acquisition 2000(e)</b>	<b>13.2 %</b>
<b>Share price value premium</b>	<b>27.5 %</b>
<b>Enterprise value premium</b>	<b>13.4 %</b>



## **Comparison with recent transaction**

---

### **▶ Comparison within the same market segment:**

**January 1998:**

**La Quinta / Meditrust at X 12.9 EBITDA**



## Price per room

---

- ▶ **Acquisition price per owned room \$37,282, distinctly below estimated replacement cost**
- ▶ **To be compared to average room rate of \$47 in 1999**



## Financing of acquisition

---

- ▶ **Equity funds:           \$325 million**
- ▶ **Local debt:             \$790 million**
- ▶ **Possibility of sale of real estate**
  - **Possibility of partial sale and leaseback**
  - **Increase of ROCE by 0.5% for every \$100 million sold**

# Impact for Accor





## Financial impact on Accor in 2000/2002

---

<b>(FF million) \$1 = FF 6.00</b>	<b>2000</b>	<b>2002</b>
<b>▶ Increase in Revenues</b>	<b>2,493</b>	<b>2,981</b>
<b>▶ Increase in EBITDA</b>	<b>1,016</b>	<b>1,293</b>
<b>▶ Increase in Profit Before Tax</b>	<b>244</b>	<b>469</b>
<b>Increase in EPS (FF)</b>	<b>3.3</b>	<b>6.8</b>

**Accor gearing at end 1999: 95% including organic growth**



## **Development strategy of Accor**

---

- ▶ **Organic development to be pursued: 439 hotels (52,829 rooms) committed today**
- ▶ **Opening of 65,000 rooms in 1999, including acquisitions (increase of the network by 20%)**
- ▶ **Accor jumps from 5th to 3rd by number of rooms worldwide (and remain first operator worldwide) with 3,084 hotels and 340,782 rooms.**

Source : MKG Conseil (May 1999)



# European leader and global Group

---



Acquisition of Red Roof Inns - July 1999