CORPORATE FINANCE ANALYSIS: TRAVEL

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EXECUTIVE SUMMARY

Expedia

Expedia has been showing high growth rates in revenues over the past few years (approx.18% annually) and is creating value to its shareholders by having a return on capital higher than its cost of capital. Also, Expedia shows a consistent level of debt (15%) compared to its calculated optimal level (50%), as the company is implementing a growth strategy based on the acquisition of important players in international markers, which confirms its low level of debt as it needs flexibility and cash to continue with this strategy. This strategy has also been well perceived by the market, as the stock price has been growing over the past few years, and currently appears to be overvalued by approx. 11%. Due to its diversified global strategy and being the biggest player in the online retail segment for travel, we expect Expedia to continue growing but at a slower pace, as new consumer trends and technology developments may cut into its revenue streams.

Hilton Worldwide

Hilton Worldwide Holdings Inc. has been improving its operations consistently since its 2007 LBO and subsequent 2013 IPO. The company is focused on pursuing higher growth by expanding into international markets, reducing its debt load in order to become more flexible and resilient in the face of cash flow variability from these riskier international markets, all while stressing operational efficiency and expanding its operating margins. While the company's returns are below its cost of capital and cost of equity, with growth from new properties, increases in margins, and a lower debt to equity ratio, we believe the company can soon exceed these expected returns. That said, we do believe the company is overvalued and recent decreases in price per share reflect that reality. Additionally, the board of the company as well as the audit and compensation Committees would benefit from increased diversity and fewer Blackstone affiliates.

JetBlue

JetBlue has consistently generated above-average returns on capital and equity compared to those airline industry. This is primarily attributed to its competitive advantage in keeping its costs low and spreading fixed costs across more revenue streams. Because the airline industry in the US is considered very risky, JetBlue has been reducing its debt and increasing its cash over the past few years, steadily increasing its credit rating. Its current debt levels are well below the optimal (31.31% versus 60%), but the additional need to flexibility in its industry will mitigate some of the benefit of moving toward this optimal. The company does not issue dividends, does not plan to, and should not do so because of the need for large equity reserves to facilitate this flexibility. We believe the company is currently overvalued by about 20%, likely because of analyst overestimates of growth – reports indicate an expectation of increasing growth over the next few years, while our models keep JetBlue's growth at a steady rate that is slightly below that of the industry as a whole.

Royal Caribbean

Royal Caribbean operates in an industry that is cyclical with the state of the economy. Since the financial crisis, the company has been able to achieve returns that exceeded expectations. In order to continue achieving moderate growth and maintain its competitive advantage, the company has made large investments in new. Given the large, upfront capital requirement and long-term nature of these projects, the company's current return of capital (5.61%) is below its cost of capital (7.65%). Management is focused on increasing ROC to double-digit levels in the next 5 years in order to improve shareholder visibility. Although the company's current debt ratio (33.58%) exceeds the optimal (0%), using debt is an efficient way to finance its capital acquisitions so we do not expect to see the company eliminate debt from its capital structure completely. But, Royal Caribbean should focus on managing its debt levels in order to improve liquidity so it can eventually look to compensate shareholders through a more aggressive dividend policy or shareholder repurchase plan in the future. Given our projected increases in passenger yields, operating margins and ROC over the next several years, we believe that the company's shares are currently undervalued by 23.10% and shareholders should expect to realize positive returns going forward.

Samsonite

Samsonite has generated above average returns on its projects compared to its cost of capital that has increased the value of the firm by an estimated EVA of $142 million. This has primarily been derived from acquisitions of brands that provide complementary products to Samsonite's portfolio. Samsonite's capital structure is heavily weighted towards equity to maintain flexibility, especially due to the macroeconomic exposure of its operations tied to discretionary spending on travel. However, further analysis suggests that the company would be able to increase firm value by taking advantage of the tax benefits that debt provides if the debt ratio was increased from 6.52% currently to 40%. Management has elected to return cash to shareholders in the form of dividends, which commenced in 2012. The valuation of the company suggests that the firm is overvalued by approximately 25% despite expected growth from further market penetration internationally as a result of recent acquisitions and strong margins due to its strong brand and retail distribution network. This is likely due to the implied riskiness of Samsonite in part because it operates in the cyclical hardlines retail industry despite Samsonite's strong market position in the niche segment of luggage and travel accessories.

Sixt

Sixt has recently recorded its best earnings report in company history for the fiscal year 2014. The company's emphasis on revenue growth from both domestic and international car rental markets has sparked its recent success. This success is reflected in Sixt's being able to maintain its moderate risk profile while outpacing industry competitors in return on capital, return on equity, and dividend payout figures. Additionally, the company has issued debt relatively cheaply in order to expand its operations and move itself towards the theoretical optimal capital structure. But while the revenue growth and operating margin improvements have driven the company's market value higher, the model-based valuation approach concludes that Sixt is slightly overvalued currently when compared to the market's valuation.

COMPANY DESCRIPTION

Expedia, Inc.

Expedia, Inc., (Expedia), is an online travel company, empowering business and leisure travelers through technology with the tools and information they need to efficiently research, plan, book, and experience travel. It grows its business through a dynamic portfolio of travel brands, including its majority-owned subsidiaries that feature the world's broadest supply portfolio — including approximately 435,000 properties in 200 countries, 400 airlines, packages, rental cars, cruises, as well as destination services and activities. Travel suppliers distribute and market products via its traditional desktop offerings, as well as through alternative distribution channels including mobile and social media, its private label business, and call centers in order to reach its extensive, global audience. In addition, its advertising and media businesses help other businesses, primarily travel providers, reach a large audience of travelers around the globe. The brands in its portfolio include Expedia.com, Hotels.com, Hotwire.com, Wotif.com, CarRentals.com, and others.

Hilton Worldwide Holdings Inc.

Hilton Worldwide Holdings Inc. (HWH or Hilton), a hospitality company, owns, leases, manages, develops, and franchises hotels, resorts, and timeshare properties worldwide. The company operates hotels under 12 Hilton based brand names. As of April 23, 2015, it had approximately 4,300 managed, franchised, owned, and leased hotels, as well as timeshare properties with approximately 715,000 rooms in 94 countries and territories. The company was founded in 1919 and is headquartered in McLean, Virginia. It was taken private by Blackstone in an LBO in 2007 that heavily increased its debt; since then the company has been focusing on expanding internationally, increasing margins, and paying off debt to levels that will allow it to be flexible in the future. The company became public again in December 2013.

JetBlue Airways Corporation

JetBlue Airways Corporation (JetBlue) is a low-cost US airline that was founded in 1998. According to the latest 10K report, in 2014 JetBlue served 87 destinations in the United States, Caribbean, and Latin America, carrying more than 32 million passengers with an average of 825 daily flights. At the end of

2014 JetBlue was the fifth largest commercial airliner in the US by available seat miles (ASMs). The company's competitive advantage in the volatile and difficult US airline industry is based on its ability to keep costs lower than its competitors; key cost drivers include its standardized fleet of only three aircraft types, efficiently scheduling to spread fixed costs over more ASMs, and a point-to-point rather than hub-and-spoke destination model. Recent strategic growth has focused on geographic expansion to Latin America and Boston business travelers, and the company anticipates increasing presence in the Fort Lauderdale area as a strategy for future growth.

Royal Caribbean Cruises Ltd.
Royal Caribbean Cruises Ltd. (RCL) has been a staple in the cruise vacation industry since it was formed as a partnership in 1968. In 1985 it was incorporated in the Republic of Liberia and is headquartered in Miami. It consists of 6 different cruise lines and currently offers cruise vacations to over 480 destinations in 113 countries and focuses primarily on the contemporary, premium, and deluxe segments of the cruise vacation industry and is the second largest cruise company with approximately 23% total market share globally. It is a mature company that continues to seek growth opportunities by expanding in existing markets and penetrating under-serviced regions in Europe and emerging markets.

Samsonite International S.A.
Samsonite International S.A. (Samsonite) is the world's largest travel luggage company. The company was founded in 1910, is incorporated in Luxembourg and headquartered in Hong Kong. Additional brands include American Tourister, Hartmann, High Sierra, Gregory, Speck, and Lipault brands, as well as other owned and licensed brand names. As of year-end 2014, it was estimated that Samsonite products were sold in 49,000 points of sale in Asia, North America, Europe, and Latin America. Samsonite has recently engaged in acquisitions of brands to enhance its portfolio offerings and to expand its presence in both the high end luggage market as well as protective cases for smartphones and tablets.

Sixt GmbH & Co. Autovermietung KG
Sixt GmbH & Co. Autovermietung KG (Sixt) is an international car rental company that was founded in 1912. It is headquartered in Munich, Germany and has over 2,000 locations worldwide. Though the company has focused traditionally on serving Germany, it has successfully expanded throughout Western Europe and beyond. The company offers customers innovative solutions to transport mobility, an up-to-date fleet of vehicles at competitive prices, and partnerships with airlines and leading hotel chains. The company is currently using a franchise network to expand its operations worldwide while expanding its mobility solutions focus from the traditional vacation consumer to car fleet management for businesses and full-service leasing.

I. CORPORATE GOVERNANCE ANALYSIS

Management and Ownership

Table I: CEO Information and Compensation

Company	CEO name	Yrs CEO / with firm	Salary (USD)	Bonus (USD)	Other Comp (USD)	Stock Options & Stock (USD)	Total Comp (USD)	% ownership	Other boards
Expedia	Dara Khosrowshahi	10 years / 17 years	$1,000,000	$3,500,000	$23,317	$5,119,089	$9,642,406	0%	Yes - unrelated
Hilton Worldwide	Christopher J Nassetta	8 years / 52 years	$1,142,201	$2,539,677	$50,639	$6,169,697	$9,902,214	1.37%	None
JetBlue	Robin Hayes	3 mnths / 7 years	$600,000*	$67,500*	$363,438*	$2,025,000*	$3,055,998*	0.10%	None
Royal Caribbean	Richard Fain	> 25 years / > 25 years	$1,000,000	$0	$2,416,933	$8,596,945	$12,013,878	0.72%	Yes - unrelated
Samsonite	Ramesh Tainwala	7 mnths / 20 years	$1,254,000	$388,000	$0	$596,000	$2,238,000	0.83%	Yes - unrelated

Sixt**	Erich Sixt	11 years / 46 years	Unavailable
**Since Robin Hayes current compensation is unavailable, numbers reflect prior CEO's compensation **Erich Sixt's compensation information is undisclosed as per the corporation's policy*			

All six CEOs (all male) were long-term company employees before being named CEO. None owns more than 1.5% of the stock in his respective company, and Expedia's CEO owns none. None of the CEOs appear to have any conflicting interests on the other boards he serves on.

Table II: Board Information and Calper's Test

Company	# Board Members	Avg. Years on Board	CEO is Chairman?	# Insiders	Independent Audit & Comp Committees?
Expedia	10	8.6	No	3	Yes
Hilton Worldwide	9	4.5	No	3	Yes
JetBlue	12	8.3	No	1	Yes
Royal Caribbean	11	12.2	Yes	2	Yes
Samsonite	9	4.0	No	4	Yes
Sixt	3	6.0	No	0	Yes

All of our companies' boards are largely independent – all have independent audit and compensation committees, low numbers of insiders, and a non-CEO chairman (with the lone exception of RCL). Although RCL's chairman is CEO, the board compensates by requiring majority vote for new directors and regular meetings of non-management board members. However, the majority shareholder does have a seat on the board, and the average board tenure is higher than that of all of the other companies, both of which will have negative effects on the corporate governance.

JetBlue and Hilton both have ownership conflicts on the board. Out of JetBlue's 12 board members, 3 are affiliated with Lufthansa, a German airline who holds the largest portion of all of JetBlue's stockholders at 14.91%. However, Lufthansa announced in February that it is planning to sell its entire stake, and it is unclear what will happen to its three board seats. Six out of Hilton's nine board members are affiliated with Blackstone, its majority owner. Blackstone is also selling its company stake, and therefore it is very likely that its directors – who are not only a majority but also in key oversight roles – are communicating only information that will be positively reflected in the stock price and result in a profit for the first. Blackstone will, however, be removing its board representatives when it is no longer a majority stakeholder.

Table III: ISS Corporate Governance Scores

Company	Overall	Audit	Board	Shareholder Rights	Compensation
Expedia	10	1	10	9	8
Hilton Worldwide	4	2	10	4	1
JetBlue	1	2	4	1	2
Royal Caribbean	8	1	8	9	6
Samsonite	N/A	N/A	N/A	N/A	N/A
Sixt	N/A	N/A	N/A	N/A	N/A

Samsonite and Sixt do not have ISS Corporate Governance rankings because they are non-US companies. Samsonite's board has 4 insiders, including the former CEO, and 7 out of 9 directors hold equity positions (former CEO and current Chairman, Timothy Charles Parker, has 2% of shares outstanding). Its average board tenure is relatively low, and the governance rules stipulate that the

chairman position cannot be held by the CEO. The Sixt board has three members of the family who hold seats, including the CEO, and the family owns the majority of the stock, so it can be assumed that the board acts in the best interests of the stockholders. However, the company also has an independent advisory board that must approve all decisions of the managing board, helping to mitigate some of the insider effect.

JetBlue has the best overall governance score and the best board score. Expedia and RCL both have lower overall scores because of reduced shareholder rights and the board composition. Hilton's overall score is significantly pulled down by its problematic insider board, as explained above.

Financial Markets

Table IV: Financial Market Overview

Company	Market Cap (MM)	Analyst Coverage	Avg. Volume 3 Month (M Shares)	#WSJ Articles in Last 30 Days
Expedia	$12,430	21	2.10	19
Hilton Worldwide	$29,831	35	3.44	28
JetBlue	$6,785	16	7.87	20
Royal Caribbean	$15,937	27	2.60	13
Samsonite	$5,210	21	3.79	6
Sixt	€1,900	14	1.46	1

All six companies are fairly comparable in terms of being watched in the market, with significant analyst coverage and trading volume. Media coverage varies; it is unsurprising that non-US companies have less Wall Street Journal coverage. All six also have extensive investor relations pages on their websites with unaudited financial statements available for viewing, press releases, and corporate governance information.

Corporate Social Responsibility

JetBlue has the most extensive corporate social relations initiative, with an extremely long list of projects and programs on its website. There are a number of environmental and charitable causes listed, and the company encourages its employees to volunteer and its customers to donate money and miles. Sixt is the next most active company with environmentally friendly initiatives and its Children's Aid Foundation. The other companies seem to have one primary CSR focus each, including Expedia Cares (Expedia), Save the Waves (RCL), Travel With Purpose (Hilton), and the Social Compliance Program (Samsonite). All of the companies produced lengthy reports about their initiatives, available on their websites, as a way to inform shareholders about their social responsibility emphases.

II. STOCKHOLDER ANALYSIS

Stockholder Breakdown

Table V: Percentage Owned by Type

Company	Insiders/Individuals	Institutions	Corporations	State	Public and Other	VC/PE Firms
Expedia	3.92%	79.46%	16.52%	0.11%	0.00%	0.00%
Hilton Worldwide	1.37%	41.41%	0.00%	0.00%	2.09%	55.13%
JetBlue	0.32%	78.07%	11.58%	0.84%	0.97%	8.22%

Royal Caribbean	1.41%	73.21%	8.18%	0.09%	4.91%	12.20%
Samsonite	3.23%	69.37%	0.00%	0.00%	27.40%	0.00%
Sixt	0.00%	26.00%	60.10%	0.00%	14.00%	0.00%

Expedia, JetBlue, Samsonite, and RCL are all majority-owned by institutions who are well-diversified and thus able to diversify away any firm-specific risk. Hilton is majority owned by PE firms, who are likewise well-diversified. Sixt, however, is primarily held by insiders – the corporation ASV Verwaltungs GmbH & Co is a holding company for the Sixt family stock. RCL is the only other company with a large insider stake; A. Wilhelmsen Capital AS (PE Firm) holds 12.20% of shares and a seat on the board. Expedia, JetBlue, Samsonite, and Hilton all have no insiders with more than 3% of the shares.

Table VI: Company Insider Holdings (>1%)

Company	#	Name	Role	% Owned
Expedia	11	Barry Diller	Chairman of the Board	3.90%
Hilton Worldwide	16	*None*		
JetBlue	17	*None*		
Royal Caribbean	22	*None*		
Samsonite	7	Timothy Charles Parker	Chairman of the Board	2.00%
Sixt	3	ASV Verwaltungs GmbH & Co, Members of Sixt Family	CEO, Members of Managing Board	60.10%

Marginal Investors

Table VII: Institutional Investors

	#	Name	% Owned		#	Name	% Owned
Expedia	587	1. Capital Research and Management Company	7.32%	Royal Caribbean	569	A. Wilhelmsen Capital AS	12.20%
		2. JP Morgan Chase	6.32%			Baillie Gifford & Co	6.59%
		3. Vanguard Group	6.17%			The Vanguard Group, Inc.	5.31%
		4. JP Morgan Asset Management	6.07%			BlackRock, Inc.	3.97%
		5. Blackrock	4.41%			State Street Global Advisors, Inc.	3.16%
Hilton	390	1. Blackstone Group	55.13%	Samsonite	196	T Rowe Price Group	7.07%
		2. Norges Bank	4.01%			Wellington Management Company	6.50%
		3. T Rowe Price Associates	2.81%			Fidelity Worldwide Investments	6.07%
		4. Winslow Capital Management	2.11%			Morgan Stanley Investment Management	5.50%
		5. Viking Global Investors	1.68%			Capital Group International	4.02%
JetBlue	426	1. Fidelity	12.25%	Sixt	99	ASV Verwaltungs GmbH & Co	60.10%
		2. Dimensional Fund Advisors	7.89%			Deutsche Wealth & Asset Management	7.49%
		3. Blackrock	7.67%			Norges Bank Investment Management	2.29%
		4. Primecap	6.99%			Albrecht von Witzleben Asset Management	1.73%
		5. Vanguard	5.59%			Union Investment Privatfonds GmbH	1.49%

The marginal investors for each company are institutions. They are all global and well-diversified and therefore unlikely to challenge management on important positions. They would rather divest their equity positions; therefore, these companies can be analyzed using systematic risk and disregarding idiosyncratic risk. In the case of Sixt, although the family holds the majority of the stock, its percentage of shares has remained consistent over time, and institutions have done the bulk of the trading.

III. RISK AND RETURN

Top-Down Beta

A regression analysis was done to measure the historical performance of all the companies relative to a market index. Weekly returns over the past two years were used and regressed against the same time period for the S&P 500 (with the exception of Sixt SE which used the DAX Index). The below table illustrates the results of that analysis.

Table VIII: Risk & Return Characteristics

Company	Regression Beta	Reference Index	Industry	Industry Average Beta	Average Risk Free Rate	Jensen's Alpha	R^2 from Regression	Standard Error of Beta
Expedia	1.064	S&P 500	E-Commerce	1.05	1.91	18.71% (annual)	10.10%	0.315
Hilton Worldwide	1.097	S&P 500	Hotel / Gaming	0.75	1.91	8.41% (annual)	33.00%	0.204
JetBlue	0.927	S&P 500	Air Transport	0.98	1.91	48.68% (annual)	10.50%	0.27
Royal Caribbean	1.471	S&P 500	Hotel / Gaming	0.75	1.91	19.86% (annual)	31.30%	0.216
Samsonite	0.417	S&P 500	Retail (hardlines)	1.79	1.91	12.50% (annual)	2.90%	0.237
Sixt	0.937	DAX	Trucking	0.958	0.45	19.07% (annual)	32.20%	0.135

A measurement of how much risk is attributed to the market index can be seen by looking at the R^2 of a regression. In the group's set of companies, the largest R^2 values, and subsequently those companies with the highest percentage of risk attributed to the market factors are Royal Caribbean, Hilton Worldwide, and Sixt. These three companies share specific traits. In bad economic climates, there is lower demand for cruise vacations, vacation stays, and car rentals which are all mostly discretionary purchases. Consequently, each company's earnings and stock performance are negatively impacted. Positive impact occurs in good economic climates. This positive correlation between each stock's return and the market itself helps to explain the relatively large R^2 values.

Royal Caribbean's stock performance appears to be the most volatile based on its high beta value. This can be attributed to the presence of firm-specific risk. The impact of downturns for Royal Caribbean is worse (and upswings are better) for the company in comparison to the market overall. This risk is associated with a variety of factors. Firstly, its global operations leave it exposed to currency fluctuations, natural disasters/weather conditions, and geopolitical issues. Secondly, fuel costs expose the company to commodity price fluctuations and supply issues. And thirdly, the company's debt financing exposes it to interest rate fluctuations. Conversely, Samsonite's regression beta appears to be the smallest and quite small when compared to the industry average. Low debt levels, geographic diversification, and a strong brand within the retail luggage market helps to reduce its overall variance of returns. In comparison to the industry average, Samsonite also possesses a relatively low beta; however luggage retail is a niche market that has specific characteristics compared to general retailers.

While the regression analysis provides one view of risk, it is crucial to note that the estimates are not always precise. The precision of this beta estimation is assessed by its standard error. The standard errors range from of low of 13.5% in Sixt's case to a high of 31.5% in the case of Expedia. Beta

calculations are purely estimates and while the values give a picture of a company's risk profile, the high standard errors of the beta imply that the estimations should be viewed cautiously.

Regression data can also be used to calculate Jensen's alpha, which is a value that describes the abnormal return of a stock over its theoretical expected return. A risk-free rate of 1.91% was used for all companies with the exception of Sixt (which used 0.45%) and the results showed that all companies performed well relative to market expectations.

Bottom-Up Beta

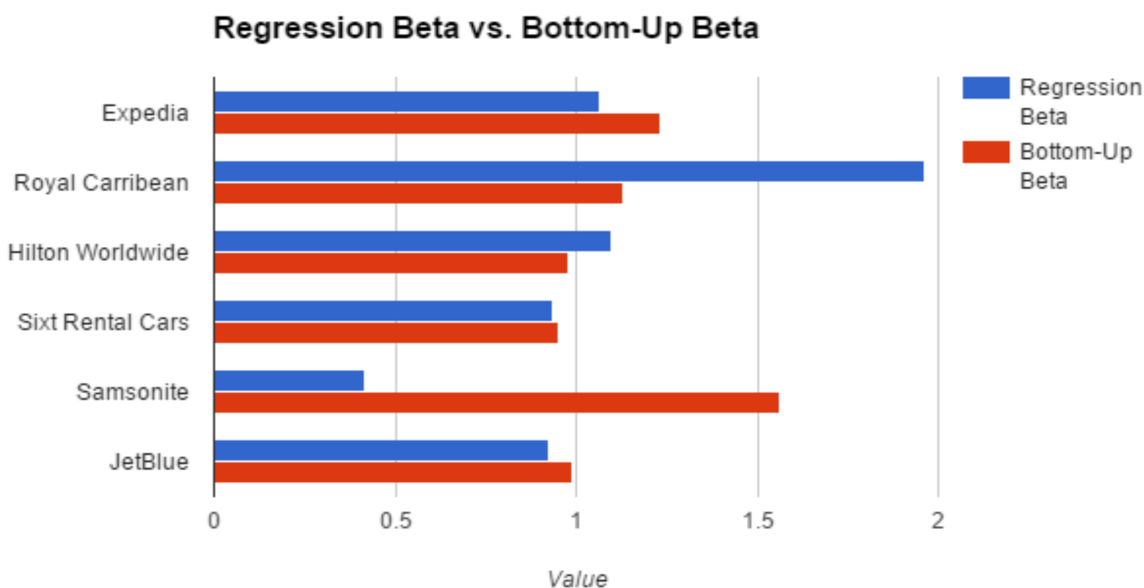
An alternative method for evaluating beta is the "Bottom-Up" approach to beta estimation that uses industry averages to come to a potentially more accurate beta value. For each company the market value of equity and debt are needed to calculate a beta using the bottom-up approach. The below outlines these values for each company:

Table IX: Market Values

Company	Market Value of Equity (MM)	Market Value of Debt (MM)	Market Value of Capital (MM)	Debt / Equity Ratio	Unlevered Beta	Levered Beta
Expedia	$12,430	$1,938	$14,368	17.72%	1.09	1.23
Hilton Worldwide	$29,831	$11,769	$41,599	39.40%	0.79	0.98
JetBlue	$6,785	$2,029	$8,814	29.90%	0.82	0.99
Royal Caribbean	$15,937	$8,022	$23,959	50.33%	0.75	1.13
Samsonite	$5,210	$343	$5,553	6.57%	1.55	1.56
Sixt Rental Cars	€1,900	€1,408	€3,308	74.12%	0.93	0.95

The chart below shows a comparison between the top-down beta and the bottom-up beta. RCL and Samsonite have the highest variances.

Figure 1: Regression vs. Bottom-Up Beta



Cost of Capital

Samsonite has a relatively low cost of capital given its low debt to equity ratio and its high cost of equity. Sixt SE's cost of capital is helped because of an extremely low cost of debt due to low borrowing rates in its country of incorporation (Germany). Investment returns overall are heavily influenced by all the factors discussed and will be examined closely in the next section.

Table X: WACC

Company	Beta	Cost of Equity	After-Tax Cost of Debt	WACC
Expedia	1.2314	9.78%	2.35%	8.66%
Hilton Worldwide	0.98	8.07%	3%	6.64%
JetBlue	0.9861	8.38%	5%	7.60%
Royal Caribbean	1.1275	9.16%	4.66%	7.65%
Samsonite	1.5555	12.56%	1.39%	11.87%
Sixt	0.95	7.03%	0.60%	4.29%

IV. MEASURING INVESTMENT RETURNS

Table XI: Summary of Investment Returns

Company	ROC	Cost of Capital	ROC - WACC	BV Capital (mm)	EVA (mm)	ROE	Cost of Equity	ROE - COE	BV Equity (mm)	Equity EVA
Expedia	9.88%	8.78%	1.10%	$4,550.70	$50.06	9.38%	9.78%	-0.40%	$2,145.46	-$8.58
Hilton Worldwide	4.53%	6.67%	-2.14%	$41,599.30	-$890.23	6.50%	8.07%	-1.57%	$4,276.00	-$67.13
JetBlue	8.10%	6.01%	2.09%	$4,762.00	$99.53	18.79%	6.45%	12.34%	$2,529.00	$312.08
Royal Caribbean	5.61%	7.65%	-2.04%	$17,176.09	-$350.39	8.26%	9.16%	-0.90%	$8,704.90	-$78.34
Samsonite	24.82%	11.87%	12.95%	$1,097.16	$142.07	20.25%	12.56%	7.69%	$1,053.56	$81.02
Sixt	5.60%	4.29%	1.31%	€2,144.60	€28.09	15.50%	7.03%	8.47%	€741.60	€62.81

Table XII: Industry Investment Returns

Company	Industry	ROC	Industry ROC	ROE	Industry ROE
Expedia	Retail (Online)	9.88%	10.93%	9.38%	15.78%
Hilton Worldwide	Hotel/Gaming, Homebuilding, Ops & Mgmt	4.53%	9.06%	6.50%	9.89%
JetBlue	Air Transport	8.10%	9.50%	18.79%	2.84%
Royal Caribbean	Hotel/Gaming	5.61%	9.28%	8.26%	9.68%
Samsonite	Retail (General)	24.82%	17.15%	20.25%	12.10%
Sixt	Trucking	5.60%	4.02%	15.50%	10.44%

Expedia

There is no typical project for Expedia. Its growth strategy has been based on acquiring competitors in new markets like Australia and Asia, as well as providing new options for clients, such as different bundling options online. Expedia's returns have lagged behind industry averages by 1.05% and 6.40% on

an ROC and ROE basis, respectively. Due to the dynamic nature of the online retail space, it is difficult to foresee what Expedia's future projects will be.

Hilton Worldwide

The projects for Hilton include building owned hotels, management and franchise, and timeshare properties. Most projects for the firm are long term and require significant upfront investment and are amortized over an extended period of time. A typical project in ownership includes: scouting locations and properties, building a new property or renovating a different one, furnishing, marketing costs, hiring staff, and training. Generally, these projects are financed through different kinds of debt. Cash flow patterns vary by the type of property and location, but should be relatively constant for business hotels and more cyclical for resorts. Nonetheless, projects are highly subject to changes in the economic environment.

The projects that the firm has on its books currently are not great. With a 4.53% adjusted return on capital the firm is earning less than its cost of capital. Furthermore, its adjusted return on equity is lower than what stockholders require to hold the company's stock. Nonetheless, the company has many properties under development in international markets and is focused on increasing margins, which could improve the overall returns.

The projects in the future are likely to look like the projects in the past seeing that the firm is in the hotel and timeshare industry. The number of international projects is expected to increase which will change the composition of the firm's revenues. Following the Blackstone acquisition, the firm is making it clear that it is focused on increasing efficiency and operating margins, which can result in a reduction of costs and therefore more profitable projects.

JetBlue

Overall, JetBlue's ROE and ROC are significantly better than its cost of equity and cost of capital, indicating that its projects are of high quality. JetBlue is able to generate above average returns due to their ability to keep costs lower than their competitors and operate their routes efficiently. Furthermore, the air transport industry suffers from a low ROE of 2.84%, which JetBlue also exceeds. Typical projects include: orders of new aircraft, terminal expansion and improvement, and the additional of new destinations. In 2014 some project highlights included the introduction of JetBlue Mint service and the opening of terminal T5i at JFK airport.

Royal Caribbean

Royal Caribbean typically limits its investments within the scope of the cruise vacation industry, either by purchasing new ships, upgrading existing ships, or acquiring/divesting other cruise ship operations. These projects have medium to long-term time horizons as new ships and ship improvements often have useful lives of 20-30 years. There are significant upfront costs required, paid primarily in USD or EUR, followed by gradually generated revenues which are cyclical with the state of the economy and denominated in many currencies however the majority are in USD and EUR.

From an ROE and ROC perspective, RCL's existing projects do not provide an adequate return given the firm's cost of equity / cost of capital. In the past 10 years, the company has acquired 22 new cruise ships and invested in new technologies and esthetic upgrades on existing ships. Since these investments are expensive, long-term in nature and require upfront financing, it will take time before the company is able to realize adequate returns on these investments. However, RCL management has made increasing ROC to double-digit levels by 2017 a priority through its new Double-Double program it introduced in 2014 in order to maximize shareholder value in the long-run. To achieve these goals, they are focusing on three key objectives: growing revenue yields, maintaining cost consciousness and pursuing moderate capacity growth. Based on analyst reports, RCL is expected to realize positive revenue growth, improved margins, and higher ROC over the next 5 years.

Ship investments are important because the industry is competitive, customers are price sensitive, and switching costs are low. As a result, it is expected that RCL will continue to invest in new and existing ships in order to ensure they continue providing a unique customer experience. RCL may look to do an

acquisition of another cruise operator as they last did in 2006 to acquire Pullmantur S.A., for $896 million. However, the company recorded a goodwill impairment charge of $319 million, indicating that RCL overpaid and that management did not conduct an adequate analysis of the risk and return of the acquisition prior to undertaking it. Care should be taken in the future if RCL is to look at making further acquisitions of a similar nature.

Samsonite

Recently Samsonite has driven growth through acquisitions, notably, High Sierra and Hartmann in 2012 and Lipault and Speck in 2014. The time frame for these projects is medium term from initial due diligence through the integration of operations. There is an initial cost associated with acquisitions however Samsonite is able to leverage its distribution network in order to quickly generate revenues. In addition, the acquired brands are usually well-established with complementary products that fit within Samsonite's strategy of luggage and travel accessories that make integration easier and less risky. The acquisitions have generally been financed with cash flow from operations but Samsonite also has capacity under its USD denominated Revolving Credit Facility. The currency has predominantly been in USD, though some European acquisitions have been in EUR as well.

Samsonite has demonstrated an ability to generate returns on projects that exceed both its cost of capital and cost of equity. The company believes that its brand and distribution network provide it with a competitive advantage. Thus, they are able to extract further value from the companies they acquire by leveraging these resources to expand the business. Samsonite similarly beats the industry average for ROC and ROE for general retailers for this reason.

Sixt

The ROC for Sixt is greater than the cost of capital showing that the firm's projects are adding value to the company overall. Additionally, the firm generates value for its equity holders with the return on equity greater than its cost. In comparison to the industry, Sixt's return on capital is relatively in line with the competitors while its return on equity outpaces that of the overall industry.

V. CAPITAL STRUCTURE CHOICES

Current Debt Structure

Financing for these companies is as varied as they are (refer to appendix). Sixt has the highest leverage, followed by Royal Caribbean, and Hilton Worldwide. With the exception of Expedia and to a degree Samsonite, the other companies have a high level of fixed costs and their growth is dependent on high capital investment in new fixed assets. Their debt/equity mix reflects this reality. Hilton Worldwide has a high level of asset backed debt that was incurred during its leveraged buyout, whereas JetBlue and Sixt have large capital and operating leases, and Royal Caribbean has large, unsecured term loans that present a risk to its flexibility and profitability.

Benefits and Costs of Using Debt

Some of the companies can benefit more than others from debt as a tool to increase management discipline. Hilton Worldwide, Expedia, Royal Caribbean, and JetBlue have some activist investors who we assume monitor management but their stakes are not sufficiently high to wield a lot of influence. Additionally, JetBlue, Hilton, and Expedia have boards that, given their affiliations, could benefit from higher levels of debt. The same is true for Royal Caribbean whose management does not receive performance-based compensation.

Table XIII: Tax Benefit

Company	Marginal Tax Rate	Effective Tax Rate	Tax Benefit (mm $)
Expedia	40%	29.00%	$638.60
Hilton Worldwide	40%	27.79%	$247.20
JetBlue	40%	35.63%	$53.60
Royal Caribbean	0%	0%	$0.00
Samsonite	40%	27.30%	$18.36
Sixt	30%	29.90%	€14.10

Table XIV: Benefits of Using Debt

Company	Added Discipline
Expedia	Management doesn't hold much stock in the company and there are activist investors who are mainly decreasing their holdings in the company. Whether the company benefits from added discipline depends on future involvement from these activist investors but for now, they should increase their debt.
Hilton Worldwide	Activist investors are involved and they vary their share in the company. Their involvement probably acts as a source of discipline for management but their combined stake is low. Debt levels are below industry and company would benefit from decreasing debt further but not by much as their Board is made up largely of Blackstone representatives who could be steering the company in a direction that would ensure highest price per share as they cash out, even if not beneficial for other stockholders in long run.
JetBlue	An increase in debt could increase discipline in management, as none of management individuals or board members own significant stock but the company has activist investors who are increasing stakes.
Royal Caribbean	Doesn't have significant share ownership by management or activists. Could benefit from taking on debt to add discipline especially as management compensation is tied to performance. Doesn't benefit from tax savings on interest and debt can incentivize management to generate sufficient revenue to cover interest payments and focus on credit ratings, ROC, and maximizing shareholder value when making investment decisions.
Samsonite	Samsonite's primary balance sheet debt comes from the Company's $500MM USD Revolving Credit Facility maturing in 2019, of which $60MM has been utilized. This Facility is subject to covenants and restrict Samsonite to some degree. While taking on additional debt could act as a further control on management, the additional risk and costs would greatly outweigh the benefits.
Sixt	Sixt's capital structure is such that it is closely held with high insider holdings. This implies that debt is unlikely to add significant additional discipline to management.

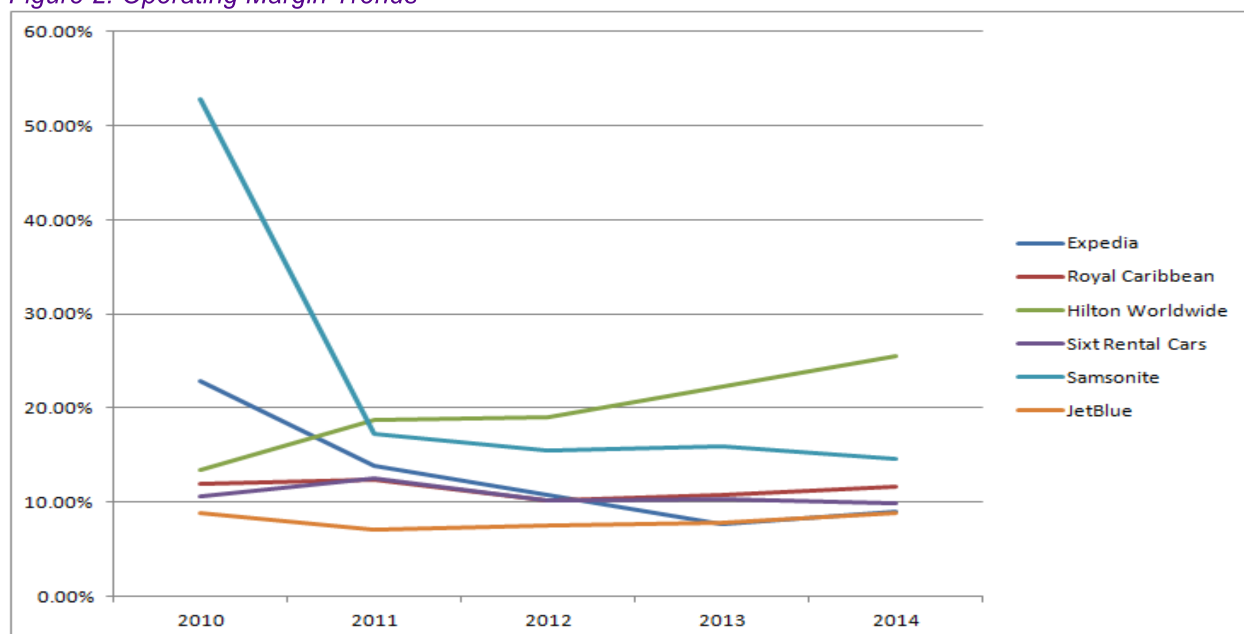
On average, the companies are highly affected by economic factors and the prospect of bankruptcy. As many of them have rewards programs and require booking in advance, the prospect of bankruptcy would decrease consumer demand since these incentives would appear less desirable as anxiety from a potentially cancelled or low quality trip, for example, would increase. Samsonite is the exception as the company has invested significantly in intangible assets, primarily goodwill and trademarks. Future flexibility is important to all, as most are expanding operations abroad and need flexibility to manage variability in future cash flows.

As we see, operating margins for the companies have remained relatively stable between 2010 and 2014. The big exception is Samsonite whose operating margin increased significantly in 2010 due to a reversal of an impairment on intangible assets impacting the number (we used unadjusted numbers). Hilton Worldwide's operating margins are increasing as the company has been heavily focused on improving performance since the Blackstone LBO.

Table XV: Costs of Using Debt

Company	Bankruptcy Risk	Agency Costs	Future Flexibility
Expedia	**High.** Cyclical industry with competition coming from traditional and nontraditional stakeholders (brand.com, AirBnB, Uber, etc.). While liquidation costs are low, fees might be high, and consumer response might be rapid as they would mistrust offers and reliability.	**Low.** Agency costs are not an issue for the company, as its intangible assets only represent 14% of its total assets. However, goodwill represents an additional 44%, which could be seen as problematic, as it owns so many different companies in numerous countries.	**High.** Equity gives it flexibility to grow through acquisitions whereas debt doesn't. Also, as online retailing, especially for travelling is very dependent of macroeconomic variables and trends, it should not borrow more.
Hilton Worldwide	**High.** Cyclical revenue with high costs if needed to liquidate. Tourism focused properties and business/conference hotels would be affected as consumers would be hesitant given advance booking.	**Low.** Assets are tangible and easy to monitor. No investments in R&D. Companies derives 13.98% of revenue from franchise and there might be some costs here as management of these properties might have conflicting priorities.	**High.** Mature company that is growing at a faster rate internationally than in the US, where risks are higher. Would benefit from flexibility.
JetBlue	**High.** Cyclical industry. Paired with high fuel costs and high fixed costs, as well as customer reluctance to use airline if they don't trust longevity/reliability.	**Low.** Agency costs are a non-factor, as the majority of the intangible assets the company owns are take-off and landing slots at the airports it operates in.	**High.** Cyclical industry with high fixed costs. Benefits from flexibility in difficult economic times, when fuel prices increase, and in case of negative PR (ex. from potential accident).
Royal Caribbean	**High.** Cyclical revenue and high costs given tangible assets to liquidate and high legal (and other) fees involved. Customers book in advance for vacation and would go to competition if perceived bankruptcy risk is high.	**Low.** Assets are tangible and easy to monitor. In 2014 company used funds to repurchase shares from largest shareholder instead of using for investment or debt repayment. May increase rates charged by banks on new debt.	**High**. Mature company with steady growth. Cyclical industry and cash flows affected by poor economic conditions. Company should limit debt to a level sustainable in bad economic climate.
Samsonite	**Low.** Company's products do not require servicing and easy for customers to observe product and trust quality. Low liquidation costs and associated fees.	**High.** High intangible assets (almost 50% of assets -primarily goodwill from acquisitions and the value of trade names). Increases the agency costs reduces the attractiveness of debt for Samsonite.	**Medium.** Mature company/cyclical industry. Value the flexibility that equity provides and not look to take on too much debt as part of its permanent capital structure.
Sixt	**Low.** Bankruptcy risk is relatively low because the company is able to produce consistent cash flows from operations.	**Low.** The company's international operations have been strong but there still exists uncertainty about the success of this expansion in the future.	**Medium.** Well positioned for future growth and flexibility is not a high concern. Additional future debt may be needed as the company expects to incur further costs to expand their business operations.

Figure 2: Operating Margin Trends



VI. OPTIMAL CAPITAL STRUCTURE

Determining the Optimal Debt Ratio and Its Effect on Firm Value and Stock Price

Altering the capital structure of a company can reduce the cost of capital and increase the intrinsic value of a company. Using the cost of capital approach, we determined the optimal mix of debt and equity for each company based on the debt ratio where cost of capital was minimized.

Table XVI: Determining the Optimal Debt Ratio Using the Cost of Capital Approach

Debt Ratio	COST OF CAPITAL					
	Expedia	Hilton Worldwide	JetBlue	Royal Caribbean	Samsonite	Sixt**
CURRENT	**9.34%**	**6.67%**	**6.01%**	**7.64%**	**11.84%**	**4.81%**
OPTIMAL						
0%	9.62%	6.84%	5.47%	**6.72%**	12.14%	5.26%
10%	9.38%	6.59%	5.28%	6.76%	11.68%	5.13%
20%	**9.17%**	6.34%	5.08%	6.80%	11.21%	5.01%
30%	10.29%	6.20%	4.89%	6.99%	10.75%	4.94%
40%	12.18%	**6.04%**	4.76%	7.20%	**10.41%**	4.92%
50%	13.18%	7.64%	4.68%	10.22%	11.81%	**4.91%**
60%	14.18%	9.04%	**4.59%**	10.92%	12.21%	7.29%
70%	15.18%	11.38%	6.88%	13.72%	15.57%	7.68%
80%	16.18%	12.38%	7.08%	14.72%	16.57%	10.94%
90%	17.18%	13.38%	7.77%	15.72%	17.57%	11.94%

*Sixt current cost of capital is lower than the optimal because the calculations only determined cost of capital rates in 10% debt ratio increments and the optimal falls between 50-60%.

With the exception of Sixt, all of our companies could benefit from altering their capital structure in order to realize a lower cost of capital. If these companies restructured their capital to match the optimal debt ratios, they would all realize an increase in firm value and stock price.

Table XVII: Effect of Moving to the Optimal Capital Structure on Firm Value and Stock Price

Company	Debt Ratio		Cost of Capital		Increase in Firm Value (in MM)	Increase in Stock Price
	Current	Optimal	Current	Optimal		
Expedia	15.05%	20.00%	9.34%	9.17%	$442 (4%)	$3.88 (4%)
Hilton Worldwide	28.29%	40.00%	6.67%	6.04%	$4,810 (12%)	$5.88 (19%)
Jet Blue	31.31%	60.00%	6.01%	4.59%	$4,983 (53%)	$16.03 (74%)
Royal Caribbean	33.68%	0.00%	7.64%	6.72%	$4,594 (19%)	$20.89 (29%)
Samsonite	6.52%	40.00%	11.84%	10.41%	$2,046 (40%)	$1.45 (42%)
Sixt	52.53%	52.53%	4.81%	4.81%	€0 (0%)	€0 (0%)

Royal Caribbean is over-levered. Since RCL is tax-exempt in most jurisdictions, it receives no tax benefit from interest payments on debt, so the optimal debt ratio is 0%. Hilton Worldwide, JetBlue, Expedia, and Samsonite are all under-levered and could take on additional debt. Sixt is currently at its optimal debt ratio of 52.53%, where the cost of capital is minimized to 4.81% (versus 4.91% at the suggested optimal at a 50% debt ratio).

Identifying the Recommended Debt Ratio

Although the optimal debt ratios minimize cost of capital and maximize intrinsic firm value, it may not be practical for our companies to move towards the suggested debt levels. To help determine the appropriate debt ratios for each of the companies, we compared them to industry and market averages.

Table XVIII: Comparison to Industry and Market Averages

Company	Industry	Debt Ratio			Cost of Capital		
		Company	Optimal	Industry	Company	Optimal	Industry
Expedia	Retail (Online)	15.05%	20.00%	6.99%	9.34%	9.17%	9.65%
Hilton Worldwide	Hotel/Gaming	28.29%	40.00%	28.60%	6.67%	6.04%	7.18%
JetBlue	Air Transport	31.31%	60.00%	44.91%	6.01%	4.59%	5.28%
Royal Caribbean	Hotel/Gaming	33.68%	0.00%	28.60%	7.64%	6.72%	7.18%
Samsonite	Retail (General)	6.52%	40.00%	23.88%	11.84%	10.41%	6.62%
Sixt	Trucking	52.53%	52.53%	40.00%	4.81%	4.81%	6.63%
Global Market Average		44.24%			6.94%		

As compared to the respective industries, half of our companies are currently over-levered and the other half under-levered. As compared to the market as a whole, all but Sixt are under-levered. Interestingly, our optimal debt ratios for the companies, with the exception of Royal Caribbean, indicate that they should all take on debt levels that exceed industry averages. But since the risk factors and operational environments vary widely between businesses within each industry and within the market as a whole, we would not suggest that our companies use industry averages as the primary debt ratio target when determining an appropriate capital structure.

Expedia

The company has been growing fast in the last few years and has financed a portion of the expansion with debt. We do not recommend the company restructure its capital to increase its debt to the optimal level. Instead, it should leave some flexibility for future growth into new markets and for a “cushion”

against the impact that increased competition from new players entering the market, like AirBnB, has on its cash flows.

Hilton Worldwide

Since risk varies within the industry and across the various brands/companies we do not think HWH should increase its debt ratio to the optimal. As HWH is focused on increasing margins and expanding internationally, it might be better off with a lower level of debt in order to have more flexibility. Nonetheless, it is likely not in Blackstone's interest to increase debt or decrease their equity stake as it is looking to reduce its investment as evidence by the sale of stock in December.

JetBlue

Since the industry is inherently risky, we would suggest giving extra weight to the flexibility offered by equity and would not increase the debt ratio up to the optimal. This recommendation is supported by the analyses given by ratings agencies, who have imposed a high equity risk premium because of the nature of the industry, although this number has improved as JetBlue has increased liquidity and paid off debt. JetBlue has performed very well recently with high operating margins so while it could afford to take on additional debt, it should maintain some level of flexibility.

Royal Caribbean

From a strictly quantitative perspective, the optimal capital structure for RCL is to be 100% equity financed. However, this is not reasonable given the nature of the firm's operations. The company does not generate enough cash internally to finance the recurring requirement to invest in new ships. Further, given the company operates in a cyclical environment, holding debt allows them to manage cash flows more efficiently. That being said, management indicated in 2014 that the company is focused on maintaining strong liquidity levels and reducing debt, with the goal of achieving investment grade credit ratings in the long-term. So we should expect to see the company moving towards a lower debt to capital ratio in the future.

Samsonite

Based on Samsonite's financial and risk profile, it would be better to take on some additional debt to take advantage of the tax benefits on interest. However, due to agency costs and the need for flexibility to respond to macroeconomic changes in discretionary spending trends, taking on too much debt would overly constrain Samsonite.

Sixt

Though Sixt currently has a high amount of debt, they are at their optimal debt ratio. They will likely continue to maintain this debt ratio for at least the medium-term since debt is an easy way to financing the company's international expansion and ongoing need to invest in new vehicles.

VII. MECHANICS OF MOVING TO THE OPTIMAL

Getting to the Optimal

Although we are taking a conservative approach and recommending our companies do not increase debt levels to match the optimal at this time, we still evaluated how the companies should restructure their capital should they choose to do so in the future.

Table XIX: Timing and Financing Mix Recommendations

Company	Over/ Under-levered?	Threat of Bankruptcy/Takeover? (High or Low)	Good Projects?	Recommendation
Expedia	Slightly under-levered	Low risk of takeover. Expedia is the biggest player in the market and is acquiring smaller competitors, not being acquired.	ROE < Cost of Equity ROC > Cost of Capital Expedia benefits from a low cost of debt to make ROC higher than cost of capital. Recent growth through acquisitions in international markets.	No need to change, as it is close to its optimal and industry average is much lower.
Hilton Worldwide	Under-levered	A potential takeover threat but unlikely given the large share that Blackstone already has in the company.	ROE < Cost of Equity ROC < Cost of Capital The company is mature but it is expected to grow at a faster pace than competitors as it is expanding into international markets	No immediate need to act. Continue using retained earnings to pay off less-favorable debt and to invest in future projects. If activist investors drop off the company should take on additional debt.
JetBlue	Under-levered	No immediate takeover threat.	ROE > Cost of Equity ROC > Cost of Capital Strong ROE/ROC vs industry	No immediate need, but should take on some additional projects using debt.
Royal Caribbean	Over-levered	Low threat of bankruptcy. Although the company has a credit rating below investment grade (Ba1), there are no immediate concerns about their ability to service bank loans/notes.	ROE < Cost of Equity ROC < Cost of Capital Projects are long-term in nature and require large up-front financing so it takes time to realize returns. Company has made increasing ROC a priority and analysts expect the company will achieve double-digit ROC by 2019.	No immediate need to act. Use retained earnings/ cash to invest in future projects and/or pay down existing debt instead of share buybacks until lower debt levels and higher ROC are achieved.
Samsonite	Under-levered	Low threat of takeover due to low debt to capital ratio. Synthetic AAA rating based on interest coverage ratio.	ROE > Cost of Equity ROC > Cost of Capital Samsonite has been able to generate positive returns on its projects, primarily through acquisitions.	Increase debt incrementally and strategically, especially to support continued growth via acquisitions.
Sixt	Slightly over-levered	No immediate concerns of bankruptcy.	ROE > Cost of Equity ROC > Cost of Capital Very strong ROE vs. industry Very good projects.	No change needed as the company is at the optimal.

Most of our companies are achieving positive return spreads on their existing projects. As a result, none of our companies are exposed to a high threat of bankruptcy or takeover at this time so any change in capital structure can be made gradually by altering the mix of debt and equity used to fund new projects and/or share repurchases and dividends. Although Royal Caribbean and Hilton Worldwide are not generating excess return spreads, it is not necessarily an indication that they take on bad projects. Instead, it is likely due to the fact that both are mature companies that have just recently undertaken long-term capital investments that are very expensive and generate returns over time. So we should expect to see returns improve over time as these projects start generating steady, long-term cash flows.

Designing the Debt

In analyzing the type of debt that our companies should use, we conducted regression analyses to determine how sensitive the companies' values and operating incomes were historically compared to changes in certain macroeconomic variables – interest rates, GDP growth, inflation, and currency. From

there, we determined the type of debt that would best hedge the companies against these sensitivities, based on their specific circumstances.

Table XX: Sensitivities and Debt Recommendations

Company	Project Cash Flows	Recommended Debt Structure
Expedia	Short-term USD Inflation sensitive Very cyclical	Short-term USD Fixed-rate Straight- Backed with US assets
Hilton Worldwide	Long-term Global currencies Inflation Sensitive Medium growth, mature company	Long-term Global currencies Fixed-rate Straight
JetBlue	Long-term Mostly USD Very Inflation sensitive Cyclical, steady growth	Long-term USD Fixed-rate Straight
Royal Caribbean	Long-term Primarily EUR & USD Inflation sensitive Cyclical, medium growth, mature company	Long-term Primarily EUR & USD Fixed-rate Straight
Samsonite	Medium-term Global currencies/USD Inflation sensitive Cyclical, medium growth, mature company	Medium-term USD Fixed-rate Straight
Sixt	Short-term EUR Inflation sensitive Cyclical, growing company	Short-term EUR Fixed-rate Straight

The existing debt structure for all of our companies is, for the most part, compatible with our recommendations and types of projects each company undertakes. Those companies that be exposed to interest rate and currency risk on their debt instruments, such as RCL and HWH, use hedging contracts to manage these risks.

VIII. DIVIDEND POLICY

Current Dividend Policy

Table XXI: Current Dividends Policies and Cash

	Expedia	Hilton Worldwide	JetBlue	Royal Caribbean	Samsonite	Sixt
Pays Dividends?	Yes	No	No	Yes	Yes	Yes
Frequency of dividends in last year	Quarterly	N/A	N/A	Quarterly	Annual	Annual
Average amount in last year	$0.17/share	N/A	N/A	$0.30/share	$0.06/share	€0.08/share
Buybacks Stock in last year?	Yes	No	Yes	Yes	No	No
Total cash to shareholders last year (mm)	$460.90	$0.00	$73.00	$435.10	$80.00	€31.60
Cash in last year (mm)	$1,403.00	$566.00	$341.00	$189.00	$140.00	€53.00
Cash / Revenues	24.34%	8.31%	5.86%	2.34%	0.77%	2.95%

From all the companies analyzed, Hilton Worldwide and JetBlue were the only ones that didn't pay dividends during the last five years. However, JetBlue did return cash to its stockholders via stock buybacks. All of the other 4 companies returned cash to its shareholders via both mechanisms, through Expedia and Royal Caribbean paid dividends on a quarterly basis while Samsonite and Sixt Rental Car paid only annually. All companies show a pretty stable level of cash during the last 3 years (not exceeding 10% of their revenues), with the exception of Expedia, which has more than doubled its level of cash from $689 MM in 2011 to $1403 in 2014 and for which cash represents almost 25% of its revenues.

Recommendations for Dividend Policy

We suggest that the companies maintain their current policies with some slight changes. Expedia should continue its dividends because of its recent increase in cash, though it should retain some level for future acquisitions; buybacks should be decreased as they will move the company further away from its optimal debt to capital ratio.

Hilton has enough cash to start paying dividends next year but should not start a buyback policy yet, it is would be inconsistent with Blackstone's position. JetBlue, although it has it increased its cash position, should not begin paying dividends as it is not the industry norm and stockholders do not currently expect them.

We recommend that RCL continue quarterly dividends as is expected by investors, but the company should hold off on further repurchases as they will be inconsistent with the optimal debt level and ongoing requirement to invest in capital projects. Samsonite should also continue the dividends but be careful to not increase its payout to fast and should consider future cash requirements for acquisitions. Finally, Sixt has a strong equity position on the balance sheet and increasing FCFE, and therefore can afford to continue to increase its dividend payouts.

IX. FRAMEWORK FOR ANALYZING DIVIDENDS

Disposable Cash Flows to Shareholders

Table XXII: Dividend Policy Analysis

	Expedia	Hilton Worldwide	JetBlue	Royal Caribbean	Samsonite	Sixt
Average FCFE last 5 years (MM)	$601.80	$1,114.00	-$319.00	$117.12	$50.06	€109.00
Average Dividends and Buybacks	$530.08	$0.00	$19.80	$143.62	$49.17	€30.42
Difference	$71.72	$1,114.00	-$338.80	-$26.50	$0.89	€78.58
% Dividends / Buybacks	88.08%	0.00%	-6.21%	122.63%	98.22%	27.61%

Both Sixt and Hilton have no return policy, despite having available funds to pay out dividends. In contrast, both Expedia and Samsonite return almost all of their available cash flows to their stockholders. RCL's returns exceed the free cash flow because of additional capital investments in 2014. JetBlue's lack of dividend policy makes sense given the overall reduction in FCFE over the past five years.

Dividend Policies and Returns

Table XXIII: Past Returns vs. Dividend Policy

	Expedia	Hilton Worldwide	JetBlue	Royal Caribbean	Samsonite	Sixt
ROE	9.38%	6.50%	18.79%	8.26%	20.25%	15.50%

Cost of Equity	9.78%	8.07%	6.45%	9.16%	12.56%	7.03%
Difference	-0.40%	-1.57%	12.34%	-0.90%	7.69%	8.47%
ROC	9.88%	4.53%	8.10%	5.61%	24.82%	5.60%
WACC	8.78%	6.67%	6.01%	7.65%	11.87%	4.29%
Difference	1.10%	-2.14%	2.09%	-2.04%	12.95%	1.31%

We see that Jet Blue, Samsonite, and Sixt have all created value for their stockholders with their current dividends policies - for JetBlue this means no dividends at all, for Samsonite it's giving back almost all of the available cash, and for Sixt it's returning about 30% of available funds. Meanwhile, Expedia has mixed indicators about its returns, as ROC > WACC but ROE < COE, that perhaps does not back up its return policy. Both Hilton and RCL show negative spreads on both aspects of return, signaling that the current dividend policies do not create value and should thus be revised.

Table XXIV: Dividend Policies vs Industry

	Expedia	Hilton Worldwide	JetBlue	Royal Caribbean	Samsonite	Sixt
Dividend Yield	0.35%	0.00%	0.00%	1.80%	0.26%	1.94%
Dividend Yield of industry	1.76%	1.96%	0.47%	1.96%	1.80%	0.95%
Difference	-1.41%	-1.96%	-0.47%	-0.16%	-1.54%	1.01%
Payout Ratio	21.30%	0.00%	0.00%	26.04%	49.90%	31.29%
Payout Ratio industry	20.21%	53.66%	5.10%	53.66%	40.23%	20.56%
Difference	1.09%	-53.66%	-5.10%	-27.62%	-40.23%	10.73%

Both JetBlue and Royal Caribbean's policies are well aligned with their industry averages, while Expedia and Samsonite pay a yield far below the industry standard. Hilton cannot be judged against its industry standards yet as it has been public for only one year.

X. VALUATION

The table below shows the current share price and the estimated share price for each company. The only undervalued company is RCL which could be due to a cautionary over-adjustment by investor as 2015 earnings guidance for the company was lowered. Hilton is likely overvalued because investors have are optimistic about earnings given the changes the firm has experienced lately and Blackstone's involvement. Similar forces are at play for Expedia, Samsonite, and JetBlue, in whose case investors are likely optimistic given the firms acquisitions.

Table XXV: Valuation Summary

	Model Chosen	Valuation Price per Share	Current Stock Price	Difference	% Difference	Undervalued / Overvalued
Expedia	Intrinsic Valuation	$91.17	$102.14	$10.97	10.74%	Overvalued
Hilton Worldwide	Intrinsic Valuation	$26.33	$30.21	$3.88	12.84%	Overvalued
JetBlue	Intrinsic Valuation	$17.79	$21.48	$3.69	17.18%	Overvalued
Royal Caribbean	Intrinsic Valuation	$89.21	$72.47	-$16.74	-23.10%	Undervalued

Samsonite	Intrinsic Valuation	$2.61	$3.48	$0.87	25.00%	Overvalued
Sixt	Intrinsic Valuation	€38.89	€43.73	€4.84	11.07%	Overvalued

Table XXVI: Valuation Results

	Expedia	Hilton Worldwide	JetBlue	Royal Caribbean	Samsonite	Sixt
Value of Operating Assets (mm)	$11,916.34	$39,284.28	$8,026.60	$28,017.87	$3,845.38	€2,561.41
Cash & Marketable Securities (mm)	$1,271.66	$566.00	$708.00	$189.24	$140.42	€53.10
Firm Value (mm)	$13,188.00	$39,812.29	$8,734.60	$28,017.87	$3,948.05	€2,614.51
Market Value of Debt (mm)	$2,022.73	$13,792.74	$3,162.40	-$8,584.74	$340.42	€1,408.00
Equity Value (mm)	$11,165.27	$26,019.55	$5,572.20	$19,622.38	$3,607.63	€1,211.51
Value of Equity in Options (mm)	$778.71	$16.89	$0.00	$4.51	$60.19	€2.10
Value of Equity in Common Stock (USD)	$10,386.56	$26,002.65	$5,572.20	$19,617.87	$3,547.44	€1,213.61
Number of Shares (mm)	113.92	987.45	313.26	219.91	1,410	31.15
Value per Share (USD)	$91.17	$26.33	$17.79	$89.21	$2.52	€38.89

Table XXVII: Valuation Assumptions

	ROIC Year 10	Industry	Revenue Growth	Pre-Tax Operating Margin	Reinvestment Rate	Industry ROIC
Expedia	20.10%	Retail (online)	Above	Above	Above	17.38%
Hilton Worldwide	9.42%	Hotels & Gaming	Above	Above	Below (intl)	9.28%
JetBlue	7.81%	Air Transport	Below	Above	Below (intl)	9.50%
Royal Caribbean	10%	Hotels & Gaming	Below	Above	Below (intl)	9.28%
Samsonite	18%	Retail (general)	Above	Above	Below	9.01%
Sixt	8.30%	Trucking	Above	Above	Below (intl)	9.19%

Expedia

The company's revenues have grown at an average rate of 18% over the last 5 years and net income has grown at a rate of 8% over the same time period. Our expectation is that revenues will continue to grow at around 14% in tune with analyst forecasts. Expedia operates in a highly competitive market where clients are price sensitive and where non-traditional competitors are findings ways to disrupt the status-quo (ex. Airbnb). Expedia is focused on generating growth by entering new markets where new technologies are not yet present and acquiring market share early. As shown above, Expedia is currently overvalued. This can be a result of the market's perception that the company will continue to grow at an equally high rate

and is likely supported by new acquisitions such as Wotif (Australia's number 1 travel website) and other international travel focused companies.

Hilton

The firm is forecasted to grow at a faster pace than the industry given its expansion into international markets. Nonetheless this growth is likely declining growth as the firm is indeed mature and it can only build so many more properties. We believe the growth of the firm will converge to its cost of capital. Our estimate is that the equity of the firm is worth $26,019.55 which is about 3.8 billion dollars lower than the market value of equity at a price per stock of $30.21. The key variable driving this value is the profit margin as the company is mature and with high but declining growth. Since the firm is mature, it is essential for it to enhance operational effectiveness. This will contribute to increased profitability from higher margins, even if as the growth slows down.

JetBlue

The growth rate is slightly below that of the industry, which is a mature market, and I would say that the company is experiencing stable growth - the expected growth rate is expected to be 9.50% per year for the next five years. It is expanding its geographic network and its fleet but at a steady pace. Its estimated value in price per share is $17.79 compared to the current price of $21.48, meaning that it is overvalued by about 20%. We believe that the high operating margin is likely the key factor influencing the company value, but the growth is likely overestimated by the market and thus the reason for the overvaluation.

Royal Caribbean

This is a mature company that is expected to realize steady revenue growth in the future. With the baby boomers nearing retirement age, it is expected that cruise lines will achieve higher passenger yields as more retirees pursue leisure travel. RCL is also expected to achieve a growth in operating margins and ROC due to its strong premium brand and stringent cost control plans, which all lead to stronger future free cash flows.

The current firm value is $28,017,875,000 and the Equity value = $19,617,870,000. Estimated price per share based on our intrinsic valuation is $89.21 v. actual share price = $72.47 so the current shares are undervalued. The undervaluation could be due to a cautionary over-adjustment to the market price by investors as a reaction to management lowering their 2015 earnings guidance because of the strong US dollar and an increase in fuel costs. The stock price was trading at over $80/share in early 2015, but when management releases this information, there was an immediate drop in the stock price of 8%. Given the growth and margin potential of RCL, we believe that the actual value of the company is better reflected with a high $80s share price.

Samsonite

The company has experienced double digit growth rate for the past 5 years since the economic downturn in 2009. Analyst estimates also put Samsonite's growth projections at approximately 10% per year. Despite being in a mature market, geographic and product line expansion via acquisition is leading to overall growth for the company. A strong brand name also permits Samsonite to generate higher margins than its peers.

The estimated value of firm equity of $3.68Bn ($2.61 share price) is less than the actual market value of $4.91Bn ($3.48 share price) by about 25%. The depressed value is likely reflective of a higher assessment of risk relative to its peers in general retail of hardline goods. This leads to a higher WACC used to discount future cash flows which results in a lower valuation of the company. Continued growth by penetrating geographic markets should lead to higher future cash flows for Samsonite. Recent acquisitions have also expanded its product offerings so continued acquisitions may also be pursued in the future.

Sixt

The most recent fiscal year saw earnings climbed to record highs on the continued growth of foreign business. While Sixt competes in a mature market, the mature nature of the company itself will enhance

operational efficiency. The geographic expansion appears to be the catalyst for future growth. Revenue from a growing leasing business will also increase share price projects for the company.

The estimated value of firm equity of €1.29bln (Euro 38.89 share price) is less than the actual market value of €1.45bln (€43.73 share price) by about 11%. The higher value in the actual share price is likely a reflection of a higher assessment of revenue growth and operational efficiency by the market. The conservative estimates in estimated valuation are revenue growth. Revenues grew by roughly 9% last year and are projected to grow significantly in the future. Additionally the higher WACC used to discount future cash flows would affect the valuation for the company and lower the estimated value.

XI. APPENDIX

Table XXVII: Valuation Assumptions

Company	Debt Type	BV Amount (mm)	MV Amount (mm)	Interest Rate on Books	Maturity	% of Debt
Expedia	Senior notes	$500.00		7.46%	2018	
	Senior notes	$749.49		5.95%	2020	
	Senior notes	$497.30	$1,938.40	4.50%	2024	88.03%
	Operating Leases	$299.00	$263.66	3.91%	2020 and +	11.97%
	TOTAL	$2,045.79	$2,202.06	5.67%	2018 - 2024	
Royal Caribbean	Unsecured senior notes	1,721.19		Various floating/fixed	2015-2027	21%
	Unsecured term loans	6,717.49		Various floating/fixed	2015-2026	79%
	Capital leases	5.26	7,880.79			
	Operating Leases	189.52	140.80		2015 and +	
	TOTAL	8,633.47	8,021.59			
Hilton Worldwide	Unsecured senior notes	$1,554.00	$1,126.90	Various fixed	2017-2021	9.58%
	Secured term loans	$5,000.00	$4,209.87	3.50%	2020	35.77%
	Commercial Mortgage Backed Securities	$3,487.00	$3,094.57	4.06%	2018	26.30%
	Mortgage loan	$525.00	$490.24	2.31%	2018	4.17%
	Mortgage notes	$196.00	$177.20	5.17%	2017	1.51%
	Capital leases	$793.00	$432.05	6.09%	2015-2097	3.67%
	Operating Leases		$2,237.74			19.01%

	TOTAL	$11,555.00	$11,768.56			
Sixt	Long term debt	€1,328.28		Various Fixed	2016-2020	90%
	Capital Lease Obligation	€74.75		Various Fixed	2018	10%
	Operating Leases	€284.70	€1,408.21			
	TOTAL	€1,687.73	€1,408.21			
Samsonite	Secured Revolving Facility	$65.15	$67.27	Various floating/fixed	2019	17%
	Operating Leases	$328.35	$275.27	5.67%	2016-2022	70%
	TOTAL	$393.50	$342.54			
JetBlue	Capital leases	$170.00	$142.01	4.10%		7%
	Unsecured convertible debentures	$154.00	$142.01	5.5-6.75%	2038-2039	7%
	Secured equipment notes, enhanced equipment notes, and special facility bonds	$1,909.00	$1,724.38	Various floating/fixed	2016-2036	85%
	Operating leases	$129.40	$1,495.00			
	TOTAL	$2,362.40	$2,028.70	> MV includes PV of operating leases		

Table XXIX: Valuation Assumptions

	Business Line	Estimated Value (mm)	Comparable Firms	Unlevered Beta	Division Weight	Weight*Beta
Expedia	E-Commerce	$29,225.43	64	1.0933	100%	1.0933
JetBlue	Air Transport	$4,545.83	32	0.8189	100%	0.8189
Hilton Worldwide	Ownership	$4,271.00	665	0.75	40.67%	0.305025
	Management and Franchise	$1,468.00	665	0.75	13.98%	0.10485
	Timeshare	$1,171.00	160	1.01	11.15%	0.112615
	Corporate	-$99.00	577	0.55	-0.94%	0.00517

	and Other					
	Other Revenues from Managed and Franchised Property	$3,691.00	577	0.75	35.15%	0.263625
Royal Caribbean	Hotel/Gaming		665	0.75	100%	0.75
Samsonite	Retail (Hardlines)	$2,050.15	79	1.5477	100%	1.5477
Sixt	Automotive		12	1.11	25.00%	0.2775
	Trucking		34	0.87	75.00%	0.6525