STRATEGIC PLAN

Distinct Hotels Corporation

Prepared for:
Board of Directors and Management Team

Prepared by Wilson Consulting Group
# Table of Contents

**Executive Summary** ................................................................................................................................. 3

**Introduction** ............................................................................................................................................... 4

**Situational Assessment** .................................................................................................................................. 4
  - Vision, Mission, and Core Values ............................................................................................................. 4
  - Key Stakeholder Preferences .................................................................................................................... 5
  - Key Success Factors ................................................................................................................................ 5
  - Current Strategy ..................................................................................................................................... 6

**Constraints** .................................................................................................................................................. 6
  - Qualitative Constraints.......................................................................................................................... 6
  - Quantitative Constraints....................................................................................................................... 6

**Financial and Ratio Analysis** .......................................................................................................................... 6

**Sources of Financing** ...................................................................................................................................... 8

**Loan Covenants** .......................................................................................................................................... 9

**External and Internal Analysis** .................................................................................................................... 9

**Analysis of Strategic Options** .................................................................................................................... 10

**Option #1: Investment in TMSR** ................................................................................................................... 10
  - Qualitative Analysis ............................................................................................................................... 10
  - Quantitative Analysis............................................................................................................................. 10
  - Financing Requirement ........................................................................................................................... 11
  - Financing Options .................................................................................................................................. 11
  - Financial Reporting Impact .................................................................................................................... 11
  - Tax Implication ...................................................................................................................................... 11

**Option #2: Purchase of AWH** ....................................................................................................................... 12
  - Qualitative Analysis ............................................................................................................................... 12
  - Quantitative Analysis............................................................................................................................. 13
  - Financing Options .................................................................................................................................. 13
  - Financial Reporting................................................................................................................................. 14
  - Tax Implication ...................................................................................................................................... 14

**Option #3: Selling Condos** ............................................................................................................................ 15
  - Qualitative Analysis ............................................................................................................................... 15
  - Quantitative Analysis............................................................................................................................. 15
  - Financial Reporting................................................................................................................................. 16
Executive Summary

DHC had asked us to assist on strategic planning and operational recommendations to go public within the next three years. Boutique hotel industry is in growth stage with increasing competition. To remain competitive, DHC needs additional funds for market expansion.

Four potential strategic alternatives that are available to DHC are as follows:
1. Investment in Topomo Mountain Ski Resort (TMSR)
2. Purchase of Artists Warehouse Hotel (AWH)
3. Selling Condos
4. Huron Heights Hotel (HHH) Management Services

We analyzed DHC’s internal and external environments and performed qualitative and quantitative analyses on the alternatives.

Our strategic recommendations to DHC are as follows:
- Purchase AWH
- Manage HHH
- Do not invest in TMSR
- Do not convert Northern Ontario hotel into condos to sell

Our operational recommendations to DHC are as follows:
- Update vision, mission, and core values
- Replace Doug Mallette
- Implement a new performance measurement system
- Update company policy with regards to unethical issues
- Align accounting treatments to comply IFRS for capitalization of website development cost, and license impairment
- Improve corporate structure and board structure
- Establish an advisory board
- Do not make the golf course near DHC’s Kelowna hotel as semi-private
- Strengthen internal control at Nova Scotia hotel

Effective implementations of the above recommendations will increase DHC’s market share and diversification that will drive sustainable revenue growth, profitability and meet initial public offering (IPO) targets.
Introduction

This report assesses DHC’s current position, evaluates the four proposed strategic alternatives, reviews operating issues, and provides recommendations correspondingly.

Situational Assessment

Vision, Mission, and Core Values

The current vision and mission statements, and core values are as follows:

Vision statement

Make guests feel welcome and special, by providing attentive, personalized, and exceptional service in a unique and luxurious historical setting.

Mission statement

We are operators of unique boutique hotels built in noteworthy historical sites with a welcoming and luxurious atmosphere, providing each guest with attentive and caring service beyond expectations.

Core values

1. Interact personally with guests and employees and take a hands-on approach.
2. Meet and anticipate guests’ expectations by being friendly and attentive.
3. Foster teamwork and respect between all employees – includes listening to employees’ concerns and viewpoints and bringing the best of our abilities each day to work.
4. Embrace new ideas and change to ensure we continuously strive toward perfection.
5. Become an important part of the local community.

Vision represents management’s aspirations of a company’s future. It is intended to align company’s course of actions with its goals. Mission is the company’s purpose or reason for existing. It identifies boundaries of company’s current business, present services, and types of customers served. Core values are internal ethical and cultural priorities of the company.

Current vision and mission statements demonstrate DHC’s goal of providing personal interaction, attentive service, uniqueness in historical and luxurious setting. However, these statements do not demonstrate the following three key core values: teamwork, innovation, and local involvement. Moreover, none of these statements reflect DHC’s proposed diversification strategy clarifying DHC target market (business travelers, and young wealthy families), competitive posture, geographic reach (Canada). Therefore, DHC needs to revise its vision, mission, and core values accordingly.
Key Stakeholder Preferences

Although management team supports DHC going public within next three years, each management team member has different preferences on the approach as follows:

- **Derek Sterne:**
  - Diversify into other related areas of the hospitality business, while remaining true to DHC’s luxury brand
  - Strengthen DHC’s involvement in local community
  - Consider additional investments in the golf course to attract new target customer

- **Jessica Sterne:**
  - Expand into upscale accommodations to increase customer base and achieve customer diversification
  - A four-star hotel is also acceptable besides a five-star hotel

- **Alyson Chung:**
  - In favor of future strategic plans that do not negatively impact the brand
  - Expand in areas where attentive customer service is vital
  - Support growth initiative where DHC can provide high level of service

- **Kelvin Chung:**
  - Properties must be unique and have some historical significance
  - Would like to maintain control over buildings design, facilities expansion and renovations

Key Success Factors

<table>
<thead>
<tr>
<th>Industry</th>
<th>DHC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good reputation and brand image</td>
<td>Met. High customer retention rate because of exceptional customer service</td>
</tr>
<tr>
<td>Unique and appealing design</td>
<td>Met. Product leadership with awarded architecture design</td>
</tr>
<tr>
<td>Additional amenities</td>
<td>Met. Spa, golf, famous chef restaurant but lack conference room for business travelers</td>
</tr>
<tr>
<td>Central location</td>
<td>Met. Convenient locations to golf, ski resorts</td>
</tr>
<tr>
<td>Providing the most advanced technology to create “smart” hotels</td>
<td>Not met.</td>
</tr>
<tr>
<td>Customer loyalty programs to retain customers</td>
<td>Not met.</td>
</tr>
</tbody>
</table>
Current Strategy

DHC’s current business model is an owned hotel model. DHC purchased buildings that were either designated as heritage sites or had some special historical significance. DHC transformed these buildings into luxurious boutique hotels which added unique features that distinguished DHC from the competitors in the hotel industry. Therefore, DHC has been profitable for the past ten years being able to charge premium prices. The DHC brand is widely recognized in the industry and is known for its "above-and-beyond hospitality in a unique and luxurious setting”. Providing high quality services in unique environment has been critical to the success of DHC.

Constraints

Qualitative Constraints

- Potential loss of control in DHC when financing from Patrick Kuzoff as both financing options either issue or allow him to purchase common shares of DHC
- New hotel purchases decisions are highly impacted by Kelvin Chung’s judgement on feasibility of renovation
- DHC does not partner with external hotel booking websites. This limits its sales growth

Quantitative Constraints

- DHC needs to show sustainable revenue, profit growth rates, and better than industry’s average return on investment
- Reducing cashflow from 2019 might negatively impact DHC’s future operation
- DHC needs to ensure that any long-term strategic investments made provide an appropriate return required for the related risk of the investment

Financial and Ratio Analysis

Appendix 1

The key themes are as follows:

1. DHC has low cash and working capital and has a plan to spend $15 million in 2020 for hotel renovation. Hence, DHC does not have enough resources on hand to pursue growth opportunities
2. The revenue growth is almost non-existent. This is a big concern for DHC’s plans to go public in three years
3. DHC’s profitability is significantly lower than industry. Both profit and operating margins are low and has been declining
<table>
<thead>
<tr>
<th>Key Ratios</th>
<th>Boutique Segment Benchmark</th>
<th>Operating Goals-2021</th>
<th>2019 Draft Ratios</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue per available room (Rev/PAR)</td>
<td>$262</td>
<td>$336</td>
<td>$280</td>
<td>Better than industry but it needs to improve to occupancy rate to achieve operating target set by the board</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>78.0%</td>
<td>80.0%</td>
<td>70.0%</td>
<td>Below both operating target and industry average. Improvement in occupancy rate will also improve Rev/PAR</td>
</tr>
<tr>
<td>Average daily rate (ADR)</td>
<td>$335</td>
<td>$420</td>
<td>$400</td>
<td>Above industry. DHC’s target is $20 higher than last year. Increase in ADR may negatively impact occupancy rate</td>
</tr>
<tr>
<td>Revenue year-over-year growth rate</td>
<td>4.8%</td>
<td>10.0%</td>
<td>0.1%</td>
<td>Revenue growth is close to zero and below industry and target. Organic growth alone would not be enough to meet the board’s target of 10% growth. DHC needs to improve room and food beverage revenue because these are major revenue generators</td>
</tr>
<tr>
<td>Current ratio</td>
<td>0.8</td>
<td>0.2</td>
<td></td>
<td>Lower than industry meaning DHC is paying current liabilities with current assets slower than industry</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.2</td>
<td>0.0</td>
<td></td>
<td>No cash on hand in 2019. It has been declining due to declining trade payables, meaning DHC is paying trade payables faster in 2019 resulting in lower cash ratio. DHC can improve the cash position by utilizing full vendor payment terms</td>
</tr>
<tr>
<td>AR Days</td>
<td>45.0</td>
<td>35.49</td>
<td></td>
<td>Has been decreasing since 2017. DHC takes 35.49 days to collect on AR while the industry average is 45 days because 90% of its sales are cash sales.</td>
</tr>
<tr>
<td>Total debt to equity</td>
<td>2.6</td>
<td>Maximum of 2.5</td>
<td>2.17</td>
<td>Lower than industry in 2019 and has been trending lower since 2017. The ratio has decreased</td>
</tr>
</tbody>
</table>
due to a significant decrease of contract liability – revenue.

<table>
<thead>
<tr>
<th>Return on equity</th>
<th>11.0%</th>
<th>11.0%</th>
<th>8.4%</th>
<th>Significantly lower than the industry and corporate target. An indicator that DHC is inefficient on using company asset to create profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating margin</td>
<td>16.0%</td>
<td>13-16%</td>
<td>9.2%</td>
<td>Significantly lower than industry and target because of DHC’s higher operating costs related to staffing and customer service</td>
</tr>
<tr>
<td>Profit margin</td>
<td>8.0%</td>
<td>8.0%</td>
<td>3.4%</td>
<td>Profit margin is lower, a major cause could be higher than industry expenses</td>
</tr>
</tbody>
</table>

Following ratios are as a percentage of revenue:

<table>
<thead>
<tr>
<th>Total wages / revenue</th>
<th>26.0%</th>
<th>33.4%</th>
<th>Significantly higher than industry because of higher percentage of full-time staff compared to industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room operating costs / room revenue</td>
<td>49.0%</td>
<td>51.0%</td>
<td>Higher than industry as DHC desires to provide the best customer service</td>
</tr>
<tr>
<td>Food and beverage costs / food and beverage revenue</td>
<td>65.0%</td>
<td>68.0%</td>
<td>Alyson focusing on delivering exceptional service results in higher than industry food and beverage expense</td>
</tr>
</tbody>
</table>

**Sources of Financing**

The following are potential financing options available to DHC:

Debt
- Line of credit and long-term loan from H&A bank
- Long-term loan from Northern Land Loans Ltd.
- Accounts receivable factoring
- Cash and mortgage financing for AWH

Equity
- Current owners
- Non-voting preferred share issue to Isabelle Logan with the cumulative annual dividend
Hybrid

- Patrick Kuzoff – Bonds with warrants
  - Patrick could potentially receive 200,000 shares of DHC

- Patrick Kuzoff – Convertible bond
  - Patrick will receive one million shares of DHC

Alternative Solutions

- Potential revenues from HHH proposal
  - Upfront cash outflow is not required. Potential revenue generated from HHH proposal could be used to finance other strategic options

Loan Covenants

There are two loan covenants arising out of the line of credit from H&A bank:

- Covenant 1 - $2 million dividend payout limit
  - DHC paid $2 million annual dividends in the past, however, cut dividends in 2019 to save cash. This covenant is comfortably maintained by DHC

- Covenant 2 - maintain debt-to-equity ratio at or below 2.5
  - DHC’s debt-to-equity ratio in 2019 was 2.17 which is within covenant limit. It has declined from previous years

The line of credit will be renewed in 2022. In 2019, DHC was unable to pay the line of credit by year end and with future cash needs to invest in strategic investments. DHC should closely monitor this covenant.

External and Internal Analysis

Exhibits 1 and 2
Analysis of Strategic Options

There are four strategic options as follows:

1. Investment in TMSR
2. Purchase of AWH
3. Selling condos
4. HHH Management Services

Option #1: Investment in TMSR

Qualitative Analysis

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>DHC’s Canmore hotel and TMSR are a 10-minute drive distance. Easier for DHC to access/manage TMSR</td>
<td>Investing in TMSR will deviate from DHC’s core business. DHC may not be able to focus on the hotel business as fully as it should be</td>
</tr>
<tr>
<td>TMSR being vital to the local community can increase DHC’s community involvement which may help boost sales</td>
<td>DHC has no experience of running a ski resort. Lacking an expertise in a new industry may lead to a harder success or failure entirely</td>
</tr>
<tr>
<td>A possibility of joint marketing to sell accommodation and ski lift tickets which may help boost sales</td>
<td>Intensive competition against two other large global ski resort companies. DHC may not be able to pursue the chance</td>
</tr>
<tr>
<td>Align with Derek Sterne’s desire to diversify into related industry</td>
<td>TMSR may only help boost DHC’s seasonal sales as TMSR relies on cold winter weather conditions</td>
</tr>
</tbody>
</table>

Strategic Alignment

Expansion into ski industry does not fit DHC’s current mission and vision as current statements are designed for hotel industry. It is aligned with the unapproved core value of local community involvement.

Quantitative Analysis

Discounted Cashflow Valuation

Appendix 2

TMSR is worth between $31 million and $34 million. TMSR’s asking price of $25 million is reasonable as the five investors will have to inject additional $14.7 million to fund the capital expenditures required for 2021 and 2022.
Ratio Analysis
Appendix 3

Financing Requirement

- $5 million to purchase 20% of TMSR; and
- additional $2.94 million to fund the capital expenditures

Financing Options

Patrick Kuzoff’s investment offer of $20 million is plenty to invest in this option.

Financial Reporting Impact

DHC will have a significant influence over TMSR as the following are evidenced:
- Representation on the board of directors
  - DHC will be represented by two directors on the 10-member board of TMSR
- Participation in policy-making processes
  - DHC will be given a 20% voting ownership in TMSR

DHC will have to use the equity method to show the initial acquisition of TMSR’s shares and subsequent income generated from TMSR on DHC’s financial statements. DHC can show 20% of TMSR’s net income as a revenue, but any dividend received will not show as a revenue but decrease an equity account.

Tax Implication

The five investors including DHC are not related and none of them has acquisition control of TMSR for the following reasons:
- Derek Sterne knows three other investors on a personal level through local town committee work
- The fourth investor is in a taxi business
- Assumption: All investors are not related to each other

Therefore, there will only be a change in control from NGM Inc to the five investors.

This option will benefit TMSR more than it benefits DHC as follows:
- DHC will become responsible for 20% of TMSR’s all liabilities including undisclosed liabilities.
- Non-capital loss carryovers within TMSR may not be used by DHC because 1) there is no acquisition of control, and 2) TMSR and DHC do not run a similar business.
Option #2: Purchase of AWH

Qualitative Analysis

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>AWH has better revenue growth and profit margin. Consolidation of AWH into DHC will help in achieving the board’s targets</td>
<td>DHC currently operates in a 5-star rated level but AWH is only 4-star rated level. This does not align with DHC’s luxurious setting</td>
</tr>
<tr>
<td>AWH is historically significant, which aligns with DHC’s portfolio</td>
<td>Guests rating on First Canadian Hotel Reviews (FCHR) of AWH is 6.5 with most comments being negative. This will negatively affect DHC’s positive and high-end brand image</td>
</tr>
<tr>
<td>AWH has great growth prospects because it is in Toronto</td>
<td>Initial investment is high which may cause cashflow issues to DHC</td>
</tr>
<tr>
<td>The purchase price of $32 million is validated and is reasonable, as per adjusted net-asset and market-based valuation</td>
<td>The hotel industry has a low expected growth rate at 1.2%, compared to 3.2% in the boutique segment of industry. This threat may constrain DHC’s growth in the long run</td>
</tr>
</tbody>
</table>

Strategic Alignment

AWH is a 4-star hotel with low customer rating. However, AWH provides a unique opportunity for DHC to own a property in a growing metropolitan area while staying true to its roots of owning historically significant property.

If acquired, AWH could provide a required boost to DHC revenue growth and profit margins.

Vision and Mission Alignment

Although AWH is a historically significant hotel, AWH does not align with DHC’s vision and mission because it is a 4-star rated hotel, which poses a potential risk to DHC’s upscale boutique brand.

Keeping AWH as a separate subsidiary will limit the reputational risk on DHC. However, it will result in a different operating model and will require additional management.
Quantitative Analysis

Asset Based Valuation

Appendix 4

Ratio Analysis

Below ratios are AWH’s financial ratios compared to DHC’s board targets and industry benchmarks.

<table>
<thead>
<tr>
<th></th>
<th>Industry</th>
<th>DHC</th>
<th>AWH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rev/PAR</td>
<td>$262</td>
<td>$280</td>
<td>$252</td>
</tr>
<tr>
<td>Occupancy rate</td>
<td>78%</td>
<td>70%</td>
<td>90%</td>
</tr>
<tr>
<td>ADR</td>
<td>$335</td>
<td>$400</td>
<td>$280</td>
</tr>
<tr>
<td>Revenue year-over-year growth rate</td>
<td>4.8%</td>
<td>0.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>0.8</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.2</td>
<td>0.0</td>
<td>0.003</td>
</tr>
<tr>
<td>Total debt to equity</td>
<td>2.6</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Return on equity</td>
<td>11.0%</td>
<td>8.4%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>16.0%</td>
<td>9.2%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Profit margin</td>
<td>8.0%</td>
<td>3.4%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Room operating costs as a percentage of room revenue</td>
<td>49.0%</td>
<td>51.0%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Total wages as a percentage of revenue</td>
<td>26.0%</td>
<td>33.4%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Administrative and general expenses as a percentage of revenue</td>
<td>15.0%</td>
<td>15.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Marketing as a percentage of revenue</td>
<td>2.0%</td>
<td>2.0%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

The profitability and growth ratios for AWH are better than DHC and boutique hotel industry. Revenue growth of 14%, ROE of 20% and the profit margin of 12.4% are all significantly better than DHC.

Financing Options

Appendix 4

Isabelle Logan is offering to fund DHC’s acquisition through a combination of cash and mortgage or issuance of preferred shares.

The recommended financing option is to issue preferred shares to Isabelle Logan and fund payment of $10 million in shareholder’s loan one year after acquisition using Patrick Kuzoff’s funding.
Financial Reporting

When DHC has obtained control over AWH, DHC is required to consolidate the purchase into its financial statements. The acquisition needs to be accounted for using the consolidation method.

DHC will need post-acquisition consolidation for the following consolidated statements: balance sheet, income statement, statement of retained earnings, and cash flow statement.

Tax Implication

There will be a deemed year-end immediately before the acquisition date. DHC could elect an amount between fair value and adjusted cost base for non-depreciable assets to use up capital losses (if any). Non-capital loss of AWH (if any), could be used by DHC in the future as they are operating in the similar business.
Option #3: Selling Condos

Qualitative Analysis

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility of renting out unsold condos with minimal conversion cost</td>
<td>DHC does not have business experience in selling real estate. This will increase the risk of reaching their target return rate of 11%</td>
</tr>
<tr>
<td>There will be potential rental income after the condo sold, when the owner asks DHC to rent their condo, DHC will keep 50% of rent, this will increase DHC’s revenue</td>
<td>Ontario hotel does not have amenities that appeal to families, which means the condos may not be fully sold as expected. This will negatively affect DHC’s cash flow</td>
</tr>
<tr>
<td>This is the new business in other related area and attracts the new customer groups which align with the stakeholder’s preferences</td>
<td>Fractional condo ownership may cause potential legal disputes which may affect DHC going public</td>
</tr>
<tr>
<td>DHC only converts 60 of 235 rooms to condos. It keeps the Ontario hotel main business competitive.</td>
<td>Decreasing room occupancy during construction will negatively impact DHC’s revenue</td>
</tr>
</tbody>
</table>

Strategic Alignment

Selling real estate does not align with DHC’s mission and core values as it is irrelevant to hotel industry. However, this option fits DHC’s current vision because DHC still provides the same level of service as provided in hotel rooms.

Quantitative Analysis

Appendix 5

All calculations in discounted cash flow analysis are based on assumptions provided starting July 1, 2020, all condos can be sold as expected and costs are based on estimates. Potential rent revenue is not included. As a result, the 10-year NPV is around $4 million. The project’s NPV will equal to zero on March 2022 and July 2037.
Financing

The financing that is required for renovation is $7 million. There are two financing options:

- Renew line of credit for $4M with H&A bank in July 2020
- $20M investment from Patrick

Financial Reporting

DHC needs to follow the following five-step processes to recognize revenue:

1. Have a formal written contract approved by both parties
2. Identify performance obligation: complete and transfer legal title of condo to buyers
3. Determine the transaction price. $90,000/fractional ownership for 1 bedroom or $150,000/fractional ownership for 2 bedrooms condo
4. Allocate transaction price to fractional ownership assuming each condo has the same transfer date and payment due date
5. Recognize revenue when DHC satisfies the performance obligation by transferring the legal title to buyers so that risk and control of the condos is transferred to buyers

Deposit received when the contract is signed should be recognized as liabilities.

Tax Implication

As DHC develops the condos with plans to sell them, income from condos sales should be considered as business income. The renovation cost is deductible expense and will reduce the net income for tax purpose in the year of sales recognized. All condos are considered as inventories instead of capital assets, and CCA claim is not allowed.
Option #4: HHH Management Services

Qualitative Analysis

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>HHH, located in downtown Vancouver, helps promote other hotels and help DHC on expanding market share</td>
<td>HHH lacks unique or special historical significance that is critical to DHC’s success</td>
</tr>
<tr>
<td>HHH will pay all insurance costs, property taxes, and operating costs. No upfront investment required</td>
<td>DHC has little experience with the managed business model</td>
</tr>
<tr>
<td>DHC can oversee the complete renovations of HHH and upgrade HHH to meet DHC’s standard</td>
<td>DHC’s reputation is at risk due to brand licensing</td>
</tr>
<tr>
<td>DHC can transfer its competency in hotel operations through employee training</td>
<td>Unsuccessful operation or legal issues raised to HHH will indirectly affect DHC, which may affect DHC’s IPO plan</td>
</tr>
</tbody>
</table>

Strategic Alignment

This option aligns with the current mission, vision, and core values. DHC can provide exceptional service through training and managing employees. DHC can also monitor the renovation to create a unique and luxurious feature.

Draft Contract Modifications

- Non-Compete Clause
  - DHC is considering expanding into metropolitan areas. The 100-kilometer radius limitation will interfere with future opportunities in Vancouver
  - Recommendation: to remove the clause
- Sharing losses incurred by HHH
  - As the contract has already specified performance metrics, DHC should not share losses incurred by HHH
  - Recommendation: to be exempt from losses
- Protection of Reputation Clause Missing
  - Reputation is critical to DHC’s success. Therefore, DHC should terminate the contract when the reputation is damaged
  - Recommendation: to add a protection of reputation clause
Quantitative Analysis

Profitability Analysis

Appendix 6

Financing

As the contract does not require upfront capital, DHC can finance other strategic options with the excess cash.

Financial Reporting

Revenue is recognized following the five-step recognition model:

Identify the contract

Both DHC and HHH agree to the contract, allowing DHC to earn consulting and management revenues.

Identify performance obligations

Renovation consultation and operation management are two distinct performance obligations because HHH can benefit from either service independently while each service is separately identifiable in the contract.

Determine Transaction Price & Allocate to each performance obligation

The transaction price for the consultation is $700,000, while management fees are determined by the expected outcome.

Recognize revenue when each obligation is satisfied

Management revenues are satisfied over time because HHH simultaneously receives and consumes the benefit during DHC’s contribution.

Consulting revenue is recognized at a point in time after the renovation is completed because HHH cannot commence its business operations until then.

Tax Implication

The management, licensing, and consulting revenue is DHC’s active business income as DHC must actively participate maintaining the brand. The management salaries and benefits for business operations and renovations are deductible for tax purposes as they are incurred for the purpose of generating the business income. Both the revenues and expenses are included in DHC’s Corporate Income Tax Return (T2).
**Decision Matrix**

Below assessment criteria are equally important as DHC has a plan of going public within the next three years.

<table>
<thead>
<tr>
<th>Strategic Option</th>
<th>Strategic Fit</th>
<th>Operating Margin &amp; ROE</th>
<th>Revenue Growth</th>
<th>Net Profit Margin</th>
<th>Financing Availability</th>
<th>Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>TMSR</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>AWH as subsidiary of DHC</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Condo</td>
<td>X</td>
<td>✓</td>
<td>Met 2020</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Not met 2021-2030</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HHH</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>Not required</td>
<td>✓</td>
</tr>
</tbody>
</table>

- **Strategic fit**: To align with mission, vision, core values/shareholders belief
- **Operating margin & ROE**: 13% for 2020, 16% for 2021 and ROE: 11%
- **Revenue Growth**: To meet DHC’s 10% revenue growth target
- **Net profit growth** rates of 8% to 10% for each of the three years prior to going public
- **Financing availability**: To ensure sufficient financing option available
- **Competitive advantage**:
  - a. Product leadership (unique, historical and luxurious design)
  - b. Customer intimacy (personalized customer service)

**Recommendations**

Purchase AWH

Although AWH does not fit the definition of a luxurious hotel, it aligns with DHC's core competency in hotel operation. DHC can transfer its competency to improve customer service and customer ratings. The purchase price of $32 million is lower than the valuation of $34 million, and it provides access to metropolitan area in Toronto. AWH has a 20.6% return of equity, 17.0% operating margin, 12.4% net profit margin, and 14.0% revenue growth, all of which are higher than the successful IPO targets. We recommend DHC to purchase AWH as a subsidiary that specializes in four-star hotel operations.
Manage HHH

This option aligns with DHC’s strategy because DHC can maintain exceptional customer service and create unique features through employee training and supervising the renovation. DHC can transfer its core competency in hotel operations to HHH. Moreover, excess cash can be used to finance other strategic options as it does not require upfront capital. As the option provides higher than IPO target operating and profit margin, it is recommended if HHH agrees to the draft contract modifications.

Do not invest in TMSR

The investment price of $5 million is lower than $6.4 million, which is 20% of the estimated equity value of $32 million. However, this option does not align with DHC’s strategy because ski resorts are not core operations, and none of the investors have experience in operating a ski resort. Qualitative factors, such as low employee morale, competition against global companies, declining skiers in the area, and little expected growth in the ski industry, do not support investing in TMSR.

Do not convert the Northern Ontario hotel into condos to sell

Although this option aligns with DHC’s vision by providing exceptional customer service, it does not align with mission and core values as it is not relevant to the hotel industry.

This option will provide significant positive NPV from 2021 until 2023, which is consistent with the objective of having a successful IPO. However, the subsequent years will generate negative profitability and will eventually drive the NPV to zero in 2037. In consideration of long-term growth, we do not recommend converting the hotel rooms into condos.

Summary

We recommend DHC to purchase AWH and to manage HHH to have a successful IPO to go public in three years. These two strategic options will also help DHC to achieve synergy and long-term sustainable growth moving forward.

Implementation Plan for Strategic Recommendations

<table>
<thead>
<tr>
<th>Task</th>
<th>Champion</th>
<th>Cost</th>
<th>Timeline</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Recommendation #1: Purchase AWH</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property inspection</td>
<td>Jessica</td>
<td>$20,000</td>
<td>March 2020</td>
<td>Estimate only</td>
</tr>
<tr>
<td>Operational audit of AWH</td>
<td>Jessica to hire external auditor</td>
<td>$10,000</td>
<td>March 2020</td>
<td>Estimate only</td>
</tr>
<tr>
<td>Finalize valuation</td>
<td>Board members</td>
<td>None</td>
<td>April 2020</td>
<td></td>
</tr>
<tr>
<td>Finalize financing terms</td>
<td>Board members</td>
<td>None</td>
<td>April 2020</td>
<td></td>
</tr>
</tbody>
</table>
Finalize purchase | Board members | $640,000 | June 2020 | Legal and other transaction cost at 2% of purchase price
Communication plan | Board members | $50,000 | December 2020 | To cost about $100,000 in collateral and labor
Integration plan | Board members | $50,000 | December 2020 |

**Strategic Recommendation #2: Manage HHH**

| Negotiate a contract | Executive managers | None | May 2020 |
| Finalize a contract | Board members | None | June 2020 |
| Conduct a renovation | Kelvin | $330,000 | July-November 2020 | Appendix 6 |
| Start managing HHH | Executive managers | $70,000 | December 2020 | Appendix 6 |

**Financial Forecast**

*Appendix 7*

**Financing Recommendation**

**No financing required in managing HHH**

The excess cash from management of HHH is an additional financing source that can be used to finance the purchase of AWH as no upfront investment is required.

**How to finance the purchase of AWH**

We recommend DHC to issue non-voting preferred shares to Isabelle Logan. This will result in no upfront cash required from DHC’s perspective.

Since Isabelle Logan wants her shareholder loan of $10 million repaid in 2021, DHC can fund the payment with Patrick Kuzoff’s funding option of bonds with warrants. The $10 million will be payable after five years. Meanwhile, DHC will incur additional interest expense to pay for Patrick Kuzoff’s funding.

The annual dividend of $1.5 million to Isabelle Logan will be financed by operating cashflow, and the rest of the net earnings will be reinvested in business for growth until a successful IPO in three years.
**Operational Issues**

**Vision/Mission/Core Values**

Our situational assessment determined that DHC’s vision, mission, and core values need to be updated to reflect diversifying strategies, and the alignment between the statements.

Our proposed vision, and mission statements are as follows:

**Vision statement**

Provide attentive, personalized, and exceptional service in a unique and luxurious historical setting. To become the first choice for guest and business partners while creating shareholder value through growth and profitability.

**Mission statement**

We create unique and memorable accommodation experiences through innovation, teamwork, personalized customer service and product leadership in design.

**Ethical issues**

Doug Mallette has been writing DHC reviews for FCHR under false names for the past year. He also gave room and restaurant discounts to his friends and other guests to leave favorable reviews in order to receive higher personal compensation. This affects DHC’s culture and employee morale negatively.

We recommend the following changes:

- Replace Doug Mallette
- Implement a new performance measurement that measures multiple key performance indicators such as net revenue growth, net profit, customer review, customer retention rate, and annual discount granted
- Update company policy with regards to unethical issues

**Performance Management Issue**

**Balanced scorecard**

A balanced scorecard provides the key metrics that should be tracked. The following metrics focus on providing high quality customer experience, optimizing operating procedures, and creating sustainable financial returns.
### Balanced Scorecard

<table>
<thead>
<tr>
<th>Objective</th>
<th>Measure</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase profitability</td>
<td>Net profit margin</td>
<td>8%</td>
</tr>
<tr>
<td>Effectively management on the company's asset</td>
<td>Return on equity</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintain loyal customer</td>
<td>Customer retention rates</td>
<td>20%</td>
</tr>
<tr>
<td>Customer service</td>
<td>Online reviews</td>
<td>90% of reviews positive</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>Rate hotels on a scale of 1 to 10</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Internal Business Processes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The utilization of available units</td>
<td>Occupancy rate</td>
<td>80%</td>
</tr>
<tr>
<td>Reduce room operating costs</td>
<td>Operating cost as the percentage of room revenue</td>
<td>2% reduction</td>
</tr>
<tr>
<td><strong>Learning and Growth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhance inventory control on the alcoholic beverage operation</td>
<td>The number of losses of beverage</td>
<td>20% reduction</td>
</tr>
<tr>
<td>Maintain employee's satisfaction</td>
<td>Personnel turnover</td>
<td>8%</td>
</tr>
</tbody>
</table>

### Other Financial Reporting Issue

**Awani spa license impairment**

We need to consider the following steps to determine whether the license is impaired:

- **Asset grouping-individual asset or cash generating units**
  - Using of Awani Spa licence can save 4% of room supply purchases and an annual licensing fee, which generate cash inflows individually, so the license would be the individual asset and should be tested for impairment.

- **Assess for impairment**
  - Annual test is only required for the intangible asset with indefinite useful life, but the license can be used for 20 years, so annual test is not necessary. Indicators that DHC would use in determining whether impairment testing is required include: Significant change in market: DHC loss many local customers and revenue from spa decreased significantly since a large well-known spa operator opened in the local area. (external indicator)
• Measure the recoverable amount (Appendix 8)
  o The recoverable amount is the higher of a) Fair value less cost of disposal $1,295,000; b) Value in use $1,836,168
• Test for impairment and record loss
  o Compare the recoverable amount to carrying amount. If the carrying amount exceeds recoverable amount, impairment exists. The original price is $2 million and amortized on a straight-line over 20 years with no salvage value, the annual amortization expense is $100,000. The carrying amount in 2020 would be $1.6 million ($2 million less four-years amortization expense $400,000).

There is no impairment loss since the recoverable amount is higher than carrying value.

**Capitalization of web design cost**

As the operating software is separately acquired, it should be capitalized if it meets both the definition and recognition criteria.

**Definition of intangible asset:**

- Identifiable
  o The software is separately identifiable as it is separately acquired
- Controlled by Entity
  o DHC controls the software
- Future Economic Benefit
  o It is probable that the software will bring economic benefit to DHC

As all criteria are met, it is an intangible asset.

**Recognition Criteria:**

- Probable future economic benefit
  o It is probable that the software will generate economic benefit to DHC
- Cost reliably measurable
  o The cost is measurable at $125,000

As all criteria are met, the software should be capitalized.

DHC has expensed all the web design related costs $819,000. The generation of an intangible asset can be classified in two phases: 1. Research: the costs from this phase are expensed; 2. Development: internally generated intangibles in the development phase must be capitalized if all criteria are met:

- Technical feasibility
- Intention to complete
- Ability to use/sell
- Probable future economic benefits
- Adequate financial and technical resources available
- Cost reliably measurable
The following costs are expensed or capitalized in accordance to the criteria above:

**Expense:**

- Feasibility studies and defining the objectives and specifications
  - The costs are expensed as it incurs in the research phase
- Training for employees
  - It does not meet the criteria of future economic benefit as the employees are likely to leave the company in the future. Therefore, it should be expensed
- Ongoing maintenance of the website by marketing staff
  - It is an operating expense as it incurred after the operation of the new website
- Promotion and advertising
  - This is marketing expense which is not directly attributed to preparing the asset for use

**Capitalization:**

- Graphic design
  - The cost should be capitalized as it is a development expenditure incurred in the development phase
- Content development, including taking and uploading the pictures, typing the text and, designing graphics
  - The cost should be capitalized as it is a development expenditure incurred in the development phase
- Testing of the website and transitioning from the old site to the new site
  - This is development expenditures and incurred in the development phase.

As a result, the following costs should be capitalized.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of operating software and installation of the appropriate applications</td>
<td>$125,000</td>
</tr>
<tr>
<td>Graphic design</td>
<td>$124,000</td>
</tr>
<tr>
<td>Content development</td>
<td>$280,000</td>
</tr>
<tr>
<td>Testing of the website and transitioning from the old site to the new site</td>
<td>$45,000</td>
</tr>
<tr>
<td>Less: promotion and advertising included in graphic design and content development</td>
<td>($80,000)</td>
</tr>
<tr>
<td>Total</td>
<td>$244,000</td>
</tr>
</tbody>
</table>

The marketing costs will decrease by $244,000, while the deferred development costs will increase by the same amount. Amortization on the intangible asset should be recorded retrospectively as it is an accounting error.
Governance Issue

The Current Board Structure

Conflict of Interest

The board of directors is responsible for providing strategic guidance for the company at shareholders’ interests. The chairman is the representative of shareholders, while the CEO represents the managers. There is a conflict of interest as Derek Sterne is both the CEO and the chairman of the board. DHC should address this issue as there will be more shareholders after IPO.

Independence of the Board Members

The current board consists of only executive directors who are also part of DHC’s management team. Non-executive directors are more objective as they have no ties to business operations. The best practice is that the chair and most of the board should be independent.

Experience and Skills

The current board members are knowledgeable in accounting and skills that are relevant to the hotel industry, such as managing customer relationships and resolving conflict. DHC will likely encounter more legal issues after the IPO but none of the board members have qualified legal expertise.

Potential Benefits of an Advisory Board

Advantages of an advisory board:

- No fiduciary responsibility
  - The advising board can provide recommendations without the fear of being liable to its advice
- No voting rights
  - No obligation for the board of directors to accept the advice as the board of directors is responsible for final approval
- Broad Knowledge Base
  - The advisory board can help eliminate the competency gap within the board members as the current board members do not have qualified legal expertise

Disadvantages of an advisory board:

- Additional expense
  - There is an additional expense for DHC to pay for the board members
- Lack of commitment
  - The board members might have little commitment to the company due to the lack of loyalty
In consideration of both advantages and disadvantages, we recommend DHC to establish an advisory board.

**Board Size, Composition, and Term of Membership**

We recommend starting with an advisory board leader with legal knowledge and gradually grow the board size up to eight members with a one-year term.

**Meeting Frequency**

We recommend the advisory board to hold a meeting twice a year.

**Remuneration**

The members are compensated as per their qualifications on a per-meeting basis.

**Management Accounting Issue**

*Appendix 9*

**Assurance Issue**

We have reviewed the alcohol beverage operations of the Nova Scotia hotel and have identified the following inventory control issues:

<table>
<thead>
<tr>
<th>Weakness</th>
<th>Implication</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bar and wait staff can get their own inventory requisitions if no one is in the storeroom</td>
<td>The inventory requisitions can be done without having them being recorded in the inventory system</td>
<td>Change the current entry code. In the absence of the storage clerk, the senior storage clerk should be present</td>
</tr>
<tr>
<td>A wait staff asks a bar staff to enter drink orders under the wait staff’s code into the point of sale (POS) system</td>
<td>The bar staff may enter drink orders into the POS anytime and consume the drinks himself or herself</td>
<td>Set a policy not to share employees’ own codes with any other staff members; restaurant manager to review sales under each staff daily to identify fraudulent transaction</td>
</tr>
<tr>
<td>No inventory count is made at the bar</td>
<td>Any unsold inventory at the bar is not being tracked</td>
<td>The count of inventory must be done by two separate bar staffs with signature to know the correct inventory Information need to be shared with Accounting for adjustment</td>
</tr>
</tbody>
</table>
A bar manager replaces broken bottles, spills or items returned due to spoilage without noting them in the inventory system

Not recording spoilages in the inventory system will result in inaccurate inventory

A bar manager must record spoilages in the inventory in POS system

The bartenders use the free pour method to measure the volume of liquid required

Inaccurate volume can be measured each time a bartender pours which will result in inaccurate inventory

The bartenders must use a standard measuring method instead of free pour method

**Taxation Issue**

Kelvin Chung and Alyson Chung (Chung) plan to gift their 10% DHC shares to their son. We have been asked to explain the implications of how Sections 85 and 86 would work on their succession plan.

Chung are not able to use a Section 86 rollover as they own 50% which is less than 100%. In order to use it, they would have to persuade Derek Sterne and Jessica Sterne to approve the reorganization.

Instead, Chung can complete an estate freeze using a holding company (Holdco) and a transfer under Section 85. We have assumed that Chung do not have lifetime capital gains exemption available.

The steps of how Section 85 would work are as follows:

- A Holdco would be incorporated, which will be a taxable Canadian corporation
- Chung would use Section 85 to transfer their shares to the Holdco. The elected amount will be the adjusted cost base (ACB) of the shares of $1,017,500 (=$2,543,750/25%x10%). There would be no tax impact on Chung’s taxable income
- Chung will take back voting preferred shares of the Holdco. The preferred shares will have a fixed redemption value of $6M (=15M/25%x10%)
- The preferred shares will have an ACB of $1,017,500 and a paid-up capital (PUC) of $1,017,500. If Chung subsequently sells the preferred shares, they will realize the capital gain
- Holdco would then issue non-voting, participating, common shares to Chung’s son for a nominal amount. These will have an ACB and PUC of a nominal amount

A purchase price adjustment clause should be included in the legal agreements as it is important in a non-arm’s length transfer in case the Canada Revenue Agency disagrees with the valuation.
## Implementation Plan for Operating Recommendations

<table>
<thead>
<tr>
<th>Task</th>
<th>Champion</th>
<th>Cost</th>
<th>Timeline</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update vision, mission, and core values</td>
<td>Board members</td>
<td>None</td>
<td>March 2020</td>
<td></td>
</tr>
<tr>
<td>Replace Doug Mallette</td>
<td>Jessica</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Update company policy with regards to unethical issues</td>
<td>Executive managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthen internal control at the Nova Scotia hotel</td>
<td>Alyson</td>
<td>$100,000</td>
<td>June 2021</td>
<td>Estimate</td>
</tr>
<tr>
<td>Align accounting treatments to comply IFRS</td>
<td>Harry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve corporate structure and board structure</td>
<td>Board to hire external consultants</td>
<td>$16,000 per audit committee member to meet twice a year</td>
<td>December 2021</td>
<td>$4,000 per audit committee member to meet twice a year</td>
</tr>
<tr>
<td>Establish an advisory board</td>
<td>Board members</td>
<td>To be determined</td>
<td></td>
<td>Once advisory board members are designated, feeds need to be negotiated</td>
</tr>
<tr>
<td>Hire an internal control team</td>
<td>Audit committee</td>
<td>$16,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implement a new performance measurement system</td>
<td>Compensation committee</td>
<td>$16,000</td>
<td></td>
<td>$4,000 per compensation member to meet twice a year</td>
</tr>
</tbody>
</table>

## Conclusion

We have evaluated the major strategic options available to DHC. We recommend DHC purchasing AWH, signing management contract with HHH, declining the offer for the purchase of 20% of equity value of TMSR, and staying out of the business of selling condos. These strategies will ensure growth and profitability goals are met along with staying in line with the vision and mission promoted within DHC.
Exhibit 1 SWOT analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Combination of skilled and professional workforce, customer service focus and unique design resulting in an attritive value proposition for customers.</td>
<td>• Poor inventory control results in inventory loss at the Nova Scotia hotel lowered restaurant profitability.</td>
</tr>
<tr>
<td>• High customer retention through competitive strategy in customer intimacy - personalized customer service, excellent customer relationship, and product leadership (Kelvin's awarded renovation design).</td>
<td>• Inactive search of new sites and lack of expansion strategy limited DHC’s growth potential.</td>
</tr>
<tr>
<td>• Owner’s hands on contribution to a various aspect of the business is aligned with DHC’s vision and mission statement of providing personalized and attentive customer service. It helps DHC on revenue growth and maintaining high customer retention.</td>
<td>• Hotel sales are made at DHC’s company website or on location, and DHC does not partner with an external hotel booking website nor offer loyal customer plan limited sales growth, room utilization and occupancy.</td>
</tr>
<tr>
<td>• Hotel locations are convenient to customers who love outdoor activities. This helps to attract and extend customer stay at DHC hotel which benefits revenue growth.</td>
<td>• Weak financial due diligence in new investments lead to weaken financials and cashflow. Ex. Golf course investment. Departure of two key spa staffs leads to loss of local customers and revenue to spa.</td>
</tr>
<tr>
<td>• Additional amenities such as world classed spa, BC awarded top10 golf course, and restaurant headed by famous chefs help to boost hotel revenues as they provide more entertainment options to customers.</td>
<td>• Lack of conference facility resulting in loss of corporate clients and lower revenue growth.</td>
</tr>
<tr>
<td>• DHC’s customers like the organic spa products provided in guest rooms and this becomes a word of mouth advertising to the spa.</td>
<td>• Huge renovation cost of $15 million is expected in 2020, especially Nova Scotia hotel will be closed during renovation time which will lead to zero revenue of this location from fall to winter 2020. Therefore, this might lead to further cashflow issues to DHC.</td>
</tr>
</tbody>
</table>
- DHC’s customer service and unique design are well received by customers which allows DHC to command a premium.

**Opportunities**

- “Smart” hotel and vacation rentals are in trend. DHC can remodel hotel features and layout to boost revenue growth.
- Customer loyalty program helps to improve customer retention rates and attract new customers. DHC can take advantage of this to improve customer base, occupancy and revenue growth.
- Consumers being more conscious about health and wellbeing creates opportunities to DHC on improving spa and restaurant revenue by meeting customer needs.
- Lower competition from the global hotel chain as they are not expanding nor investing in North America which provides opportunities for DHC to increase market share and revenue growth.
- Boutique segment being attractive to young travelers with higher family income creates opportunities to DHC to meet IPO revenue growth target through setting these types of customer as a target market to expand customer portfolio.
- Boutique hotels with a unique appeal have become more popular over chain hotels. This allows DHC to charge a premium price and leads higher profit over competitors without a unique design or feature.

**Threats**

- Low consumer confidence and increasing consumer debt level lead to low growth rates for domestic hotel occupancy.
- Declining international travelers to Canada is a threat to DHC as this will have negative impact on DHC’s revenue growth and IPO target.
- Decline in the number of skiers to ski resort and golfers to golf court may negatively impact DHC’s revenue growth because hotel sales are dependent on weather conditions for outdoor activities. Hotel occupancy rate drops dramatically when the weather is poor for outdoor activities. This will also harm DHC’s profitability as there are the unavoidable overhead expenses that could not be covered.
- Increased competition from the newer golf course opened near the Kelowna hotel has restricted DHC’s golf court as well as room revenue growth.
- Popularity of internet, social media and online marketing have increased industry competition which may lead to lower revenue growth, lower profitability as well as challenges to meet IPO targets.
- Popularity of vacation rental which provides kitchen and homelike facilities has increased competition to hotel industry which may create barriers to DHC’s revenue growth, occupancy rate, profitability as well as ability to meet IPO target.
Exhibit 2 PESTEL Analysis

Political
- Increased border security or stricter visa application rules to North America have negatively impacted Canada’s tourist numbers.
- Increased minimum wage in Canada in the past years have increased DHC’s wage expenses as non-management employees are often paid minimum wage.

Economic
- Global economy recession may reduce consumer confidence and suppress consumer spending on tourism.
- Fluctuation in the exchange rate will influence customer’s decision on picking their travel destination.

Socio-cultural
- Increasing number of travelers (especially young travelers with higher family income) prefer staying at boutique hotels with unique features over standardized hotels.
- Airbnb and family friendly vacation rentals promoting the “live locally” experience is gaining popularity.

Technological
- DHC needs to deploy increased system security to prevent cyber hacking because its database stores lots of sensitive customer information.
- DHC needs to maintain the stability of its internal online booking system as it does not partner with external hotel booking website.
- The convenience and popularity of digital platform allows a potential customer to compare hotel prices or search for nearby hotels easily. This may increase DHC’s competition with nearby hotels.
- Reviews about DHC online or social media can either build or break its reputation, and it is strongly tied to sales.

Ecological/Environmental
- Low snow volume in winter and frequent wildfires in summer due to climate change may lower the occupancy rate in Canmore and Kelowna as sales are highly dependent on outdoor visiting customers.

Legislative
- DHC must strictly follow local food and beverage, health and safety legislation. Failure to follow these rules might lead to lawsuit, fines and ruin of reputation.
- DHC also needs to set up and enforce company policy on stolen or damaged customer belongings on premises.