

Critical Evaluation of Accor's Financial Performance and the Implications of Its Asset-Light Business Model, 2021–2025

Student name: YERRA DINESH

Student ID number: 2539206

Programme: Master of Business Administration

Module: Financial Management

Module code: LCMB7002

Lecturer: Shengfeng Mei

Assignment Title: Assessment component: Financial performance and management

Table of Contents

Introduction	1
1 Five-year financial performance	1
Liquidity ratio analysis.....	3
Gearing and financial risk	5
Investment performance	5
Cash flow analysis	6
9. Integrated evaluation: Strengths, weaknesses and threats.	6
10. Overall critical judgement	7
2 Working capital management analysis	7
3 Strategic financial restructuring plan	10
4 Investment appraisal and capital budgeting	13
1. Project A	17
2. Project B	17
4Investment Appraisal and Capital Rationing: Critical Evaluation	18
5 Critical reflection of AI usage	21
Reviewing and verifying AI-generated content.....	21
AI's contribution and personal analysis.....	22
Reflection.....	22
References:.....	24
Appendix	28

Introduction

This study on the profitability, liquidity, efficiency, gearing, investment and cash flow of Accor during 2021-2025 allows us to recognise the connections, antagonisms, and implications of these ratios in the context of Accor's asset-light business model of Accor. COVID-19 continued to have a dramatic impact in 2021, with revenue dropping to €2.204bn, a 45.6% decline from 2019; RevPAR down 46%, occupancy down to 42% and pressure to take action on liquidity preservation and cost reductions.

1 Five-year financial performance

Amount	2021	2022	2023	2024	2025
Revenue	2,204	4,224	5,056	5,606	5,639
Recurring EBITDA	22	675	1,003	1,120	1,201
Operating profit	53	543	779	786	~807
Net profit	90	426	650	657	499
Total assets	10,669	11,713	~11,267	12,057	11,744
Shareholders' equity	4,549	5,456	~5,311	5,469	4,717
Operating cash flow	(234)	511	669	733	810

The 5 years can be broken down into three periods.

The five-year roadmap is a critical balance between crisis resilience and building operational efficiency. The revenues in 2021 amounted to €2.204bn, the EBITDA to €22m and the operating cash flow to –€234m, while €1.658bn cash and €1.760bn undrawn facilities ensured solvency. Recovery followed: revenue/EBITDA reached €4.224bn/€675m (2022), €5.056bn/>€1bn (2023) and €5.606bn/€786m operating profit (2024). At the other end, though, 2025 growth was 0.6% compared with 10.9% in the previous year, with EBITDA up €1.120bn–€1.201bn (and up 4.2% in RevPAR), and occupancy at 67% (up 3.5%).

Profitability ratio analysis:

Ratio	2021	2022	2023	2024	2025
Operating profit margin	2.4%	12.9%	15.4%	14.0%	14.3%
Net profit margin	4.1%	10.1%	12.9%	11.7%	8.9%
EBITDA margin	1.0%	16.0%	19.8%	20.0%	21.3%
ROA*	0.9%	3.8%	5.7%	5.6%	4.2%
ROE*	2.1%	8.5%	12.1%	12.2%	9.8%

*Approximate ROA/ROE using average assets/equity where appropriate.

Operating margin.

Accor's operating margin increased sharply from 2.4% (2021) to 12.9% (2022) and 15.4% (2023), before stabilising at 14.0% (2024) and 14.3% (2025). The 2021 base was impacted by the extremely low hotel activity during COVID-19; however, recovery margins of 14-15% are indicative of a structural improvement and not a short-term revenue recovery (VOJTEKOVA and KLIESTIK, 2024). Despite this improvement in EBITDA margin, the operating margin only improved from 14.0% to 14.3% in 2025, with depreciation and amortisation still eating a significant portion of operating profits (Toker, 2025).

EBITDA margin.

EBITDA margin improved dramatically from 1.0% (2021) to 16.0% (2022), 19.8% (2023), 20.0% (2024) and 21.3% (2025). Notably, 2025 revenue increased by a mere 0.6% while EBITDA increased by 7.2%, showing improved margin conversion. Net profit dropped from €657m to €499m, while operating profit rose by €21m to €807m. This paradox points to a stronger core business and weaker profitability at the level of the shareholders, partly due to equity-accounted investment profit falling from €188m to €7m and net financial expenses rising from €124m to €164m (Božić, Bojagić and Pavlović, 2024).

ROA.

The ROA improved from 0.9% (2021) to 5.6% (2024), which represents a significant improvement in asset utilisation, but decreased to 4.2% (2025) due to a corresponding decline in net profit without a corresponding reduction in assets.

ROE.

ROE rose from 2.1% (2021) to 12.2% (2024) before declining to 9.8% (2025). Significantly, equity also dropped from €5.469bn to €4.717bn, suggesting that this is not solely due to a larger equity base. In total, 2025 shows a positive operational performance and negative shareholder performance, which illustrates the need to consider these ratios together and not as stand-alone figures.

Liquidity ratio analysis

Ratio	2021	2022	2023	2024	2025
Current ratio	1.17x	1.23x	~0.99x	1.05x	1.05x
Quick ratio	~1.17x	~1.22x	~0.97x	1.04x	1.04x
Cash ratio	~0.63x	~0.56x	~0.45x	~0.44x	~0.43x

Liquidity illustrates the need to interpret ratios not mechanically but critically, as is the case with Accor's ratios. Its current ratio was at 1.23x (2022), below 1.0x (2023) and recovered to 1.05x (2024-2025), which is below the traditional 2:1 ratio, but its asset-light approach. Current assets in 2025 totalled €2.905bn and current liabilities totalled €2.773bn, leaving a ratio of 1.04. Current inventory holdings were in the same region at €34m, with ratios being similar in 2025 and 2024. Current assets of €1.341bn compared to current liabilities of €1.349bn resulted in a working capital of –€8m, which is an improvement from –€58m (2024). This makes it easier for suppliers to be efficient but reduces liquidity headroom (Xiao, Sethi and Li, 2024). The €1bn undrawn facility, extendable to 2030, helps to reduce risks. Accor's lean liquidity is 0.6% inventory and 12.3% receivables-to-revenue, compared to Damodaran's 63 Hotel/Gaming firms: 2.62% inventory and 10.36% receivables (Damodaran, 2026).

The contrast can be summarised as follows:

Liquidity consideration	2025	Hotel/gaming interpretation
Current ratio	1.05x	Lean but defensible
Quick ratio	1.04x	Almost identical, as inventory is immaterial
Inventory/revenue	0.6%	Sector: 2.62%
Operating working capital	-8mn	Aligned with low working capital intensity
Cash	1.205bn	Offers extra liquidity beyond current ratio
Undrawn credit facility	1bn	Important liquidity backstop

These facts, therefore, indicate that Accor's liquidity is not particularly strong, but is not particularly weak for its industry. Nevertheless, Accor is facing a challenge: its cash ratio has deteriorated from around 0.63x in 2021 to 0.43x in 2025. This means that it has become increasingly vulnerable to paying off its current debts (Lee, 2023). The drop could not be due to a bad management decision. Committed cash to investment, acquisition, dividends, debt restructuring and share buybacks, but due to less cash coverage and more gearing, the balance sheet is more vulnerable to a future downturn (Tascón, Castro and Valdunciel, 2024).

Efficiency ratio analysis

Ratio	2021	2022	2023	2024	2025
Asset turnover	0.21x	0.38x	0.44x	0.48x	0.47x
Receivable days	116	69	60	52	54
Inventory turnover	Very high	Very high	Very high	Very high	Very high
Approx. payable days	74	50	46	45	43

Efficiency showed signs of slowing down, as asset turnover declined from 0.48x (2024) to 0.47x (2025) while revenue grew from €2.204bn to €5.639bn, with asset size only rising from €10.669bn to €11.744bn. Receivable days dropped to 54 days, from 116

days, but receivables did rise by €803m to €829m, which was not matched by only a slight rise in revenue, indicating the danger of reversals. This is actually a very good turnover, but it comes from inventory of €34m as opposed to sales of €5.639bn, so it's more about Accor's asset-light business than good management (Sharma *et al.*, 2025).

Gearing and financial risk

Ratio	2021	2022	2023	2024	2025
Total financial debt/equity	78%	61%	~65%	~69%	~91%
Net debt/equity	~41%	30%	~39%	46%	~65%
Net debt/EBITDA	Very high*	2.5x	~2.1x	2.2x	~2.6x

The biggest financial risk at Accor is geared in favour of gearing, but the year 2021 is distorted by very low EBITDA. Financial debt initially fell from €3.555bn to €3.338bn (2021–2022) while equity rose from €4.549bn to €5.456bn, reducing leverage. Conversely, net debt increased to €2.495bn (2024) and €3.064bn (2025), with debt €4.303bn, equity €4.717bn, and debt/equity ~91%. Record EBITDA and €452m buybacks, coupled with dividends of €303m, increased leverage. The €520m, €547m and €911m maturities in 2026-2028 add to the refinancing pressures, limiting future flexibility.

Investment performance

Indicator	2021	2022	2023	2024	2025
EPS (€)	0.19	1.40	2.23	2.34	1.61
ROE	~2.1%	~8.5%	~12.1%	~12.2%	~9.8%
Share of equity-accounted	–273*	33	44	188	7

investment profit (€m)					
---------------------------	--	--	--	--	--

Investment performance is an illustration of a significant contradiction: losses in the midst of a crisis put EPS at €0.19 (2021) and then rose to €2.34 (2024), showing that there has been significant recovery for shareholders. EPS, however, dipped to €1.61 (2025) on a record recurrent EBITDA of €1.201bn. This shows investment profit on equity shares, which is €188m, down from €184m (2024), from AccorInvest/Essendi (and €8m from Essendi, down from €602m). Therefore, the recurring EBITDA better reflected the strength of underlying operations than 2024 returns were, which were partially investment-driven and less sustainable (Allen, Lewis-Western and Valentine, 2026).

Cash flow analysis

€ million	2021	2022	2023	2024	2025
Operating cash flow	(234)	511	669	733	810
Capex/intangible investment	~82	111	254	293	197
Operating cash flow less capex	~-316	~400	~415	~440	~613

Arguably, cash flow is Accor's strongest recovery indicator: operating cash flow improved from -€234m (2021) to €511m (2022), €669m (2023), €733m (2024) and €810m (2025) despite slower revenue growth. Most importantly, 2025 operating cash flow beat the sum of investment in PP&E and intangibles by €197m. But cash was used to pay for acquisitions, investments, debt management, dividends and buybacks. In this way, Accor is a cash-generating company and not a cash-accumulating company, and the higher the leverage, the less the flexibility (Lu *et al.*, 2024).

9. Integrated evaluation: Strengths, weaknesses and threats.

In operations, Accor improved with a revenue growth of 156% and an improvement in its margin of 21.3%, while its asset turnover rose from 0.21x to 0.47x and its financial

vulnerability grew. Net debt increased to €3.064bn and financial debt to €4.303bn despite operating cash flow of nearly €810m and liquidity of 1.0x; the net margin was narrowed to 8.9%, the EPS to €1.61 and the cash ratio to 0.43x. Further undermining resilience are investment-income volatility and shareholder distributions (Ye, Wang and Ren, 2024).

10. Overall critical judgement

In total, the five years of evidence shows that none of the ratios alone reflects Accor's financial situation. Operating ratios reflect structural recoveries, while investment ratios show reduced returns to shareholders in 2025. Higher liquidity, which is conventionally considered weak, is indicative of Accor's asset-light business model, while higher gearing will entail more risk for the company's liabilities, and better cash generation will allow it to better service its debt commitments (Ji *et al.*, 2024). Shareholder performance was multiplied by 2024 investment income, crucially. Thus, sustainable value is linked to the growth of EBITDA, management of leverage, liquidity protection and cash-flow conversion (Marchica and Mura, 2010).

2 Working capital management analysis

a. Evaluation of cash operating cycle

The cash operating cycle (COC) concept adopted by Accor needs to be analysed carefully as the Group does not provide a conventional cost of sales/purchases figure. When calculating payable days, therefore, current operating expense is used as an approximation of operating costs. This is an assumption and would not be considered a reported accounting measure, and the COC figure should therefore be treated as an approximation rather than an exact figure.

$$\text{COC} = \text{Inventory Days} + \text{Receivable Days} - \text{Payable Days}$$

$$\text{Inventory days} = \text{Inventory} / \text{revenue} * 365$$

$$\text{Receivable days} = \text{trade receivables} / \text{revenue} * 365$$

$$\text{Payable days} = \text{trade payables} / \text{Current operating expense}$$

Year	Inventory days	Receivable days	Payable days	Cash conversion cycle
2024	39/5606* 365= 2.54 days	803/5606* 365= 52.29 days	557/4486*365= 45.32	2.54+ 52.29- 45.32= 9.51 days
2025	34/5639*365= 2.2	829/5639*365=53.68 days	526/4439*365=43/25 days	2.2+ 53.68- 43.25= 12.63 days

Current operating expense is used as a proxy for the form of purchase or cost of sales.

So, the estimated COC went up by around 3.12 days, from 9.51 days in 2024 to 12.63 days in 2025.

This decline needs to be explained in greater detail. In fact, inventory efficiency went up; inventory days decreased from 2.54 to 2.20 days. Economically, this was, however, restricted given that inventory was only €34m, or around 0.60% of 2025 turnover. The major negative movement was receivables: receivable days increased from 52.29 to 53.68 days, while trade receivables increased by €26m, from €803m to €829m. At the same time, the number of payable days dropped from 45.32 to 43.25, as did the value of trade payables (from €557m to €526m). As a result, Accor received cash a bit later and fewer supplier financing.

But it is not to be taken as a sign of a serious liquidity difficulty. Strong cash generation, with operating cash flow rising from €733m to €810m. Furthermore, Accor's working capital continued to be negative.

For 2025:

Operating Current Assets=€34m+€829m+€478m=€1,341m

Operating Current Liabilities = € 526 m + € 823 m = € 1,349 m;

Operating Working Capital=€1,341m–€1,349m=–€8m

Compared with 2024:

€1,346m–€1,404m=–€58m

Therefore, the negative operating working capital increased by €50m, although the cash calculation in the COC shows a slightly longer time that cash is tied up. This apparent paradox illustrates the need not to consider one working-capital measure independently.

Critical assumption

Payable-days is an approximation as it does not only reflect purchase costs, but also includes non-purchase costs in Accor's operating expenses and should not be seen as definitive.

b. Strategies to improve liquidity through working-capital reform

But critically, receivables are more material than inventory: inventory is down from €34m and receivables rose from €440m (65 days) to €829m (53.68 days). Management to be more robust on e-invoicing, reminders, credit limits and credit limits ageing targets. Taking an additional 5 days off would free up around €77.25m cash, but the figure is dependent on revenue/provision assumptions.

Commercially sustainable supplier terms also need to be Accor's objective. Trade payables fell by €31m, from €557m to €526m. Some supplier financing may be able to offset the COC, but by delaying payments too aggressively, it may mean that supplier relationships are damaged or the early-payment discounts are lost. Hence, the goal must be to achieve optimum supplier financing and not just payable days (Xiao, Sethi and Li, 2024).

Management should also rely on 13-week "rolling" cash-flow forecasts, track ageing of receivables and set minimum cash thresholds. This is significant as cash and cash equivalents decreased from €1,244m to €547m, and current financial debt increased from €478m to €547m.

Short-term versus long-term financing

Short-term financing is suitable for short-term variations in working capital because it is flexible and can be accessed as and when needed. Accor's financial debt increased by €69m to reach €547m, which was a boost to the short-term financing capacity. However, too much short-term borrowing puts Accor at risk from refinancing and interest-rate fluctuations.

Long-term financing is better suited to permanent capital needs where there are higher degrees of certainty of maturity. Accor's non-current financial debts rose by €2,524m to €3,116m: $€3,116m - €2,524m = €592m$

This resulted in an increase in total financial debt from $€2,524m + €478m = €3,002m$ to $€3,116m + €547m = €3,663m$, which is an increase of €661m.

Thus, Accor needs to adopt the matched financing policy: short-term facilities for short-term working capital needs and long-term debt for long-term funding needs (Geelen *et al.*, 2024). Taking too much debt for long-term needs would expose them to refinancing risk, while financing each and every temporary downswing with long-term debt would unnecessarily raise the cost of financing (Lim, 2024).

Overall evaluation

More importantly, even though inventory is improving (2.54 days to 2.20 days), the estimated COC is still increasing (9.51 days to 12.63 days) due to receivables increasing from 52.29 days to 53.68 days, while payables are decreasing from 45.32 to 43.25 days. However, the €810m positive operating cash flow, the –€8m working capital and the 15-day inventory requirement are still good. Accor needs to speed up collections, keep supplier credit in line with its sustainability and align short- and long-term financing with funding needs (Kiymaz, Haque and Choudhury, 2024).

3 Strategic financial restructuring plan

The lower earnings for shareholders, at €4.717bn, and Group-share earnings, at €449m, amid higher revenue and EBITDA growth seem to be weighing on Accor's valuation, despite operations shifting to a more favorable stance with revenue up by 0.6% to €5.639bn, EBITDA up by 1.5% to €1.201bn and operating cash flow at €810m.

This separation indicates reorganisation should focus on capital allocation and choices on the balance sheet, not on additional revenue growth (Fung and Loveland, 2024).

a. Recommended restructuring options

The first is selective divestment: this is the most effective strategy. Accor might be able to sell off some of its lower-return or non-core assets and investments and use the proceeds to pay down debt or invest in higher-return activities. More desirable than asset sales on a broad basis, as it is a model that is asset-light and limits the level of asset intensity. With that, the divestiture would give the balance sheet a boost without significantly compromising the core business or management-fee model. The option is especially relevant, as Accor has equity-accounted investments totalling €1.405bn. But it is important that it is done wisely: selling off strategic assets which produce healthy revenue may result in lost income and growth opportunities.

Secondly, an equity injection should not be considered as the first port of call. New equity would lower leverage and increase financial strength, while also lowering EPS and existing shareholders' value per share. This is particularly unappealing as Accor's operating business churns out €1.201bn recurring EBITDA. The selective disposals and cash generated internally would have a strengthening impact on the balance sheet, compared to equity issuance, without immediate dilution. If the leverage continues to increase, so should Accor's discretionary buybacks, which should be suspended or moderated. It is relevant due to the EUR 452m spent by the Group on share buybacks in 2025 and a significantly lower level of shareholders' equity.

Third, refinancing and maturity extension should be used in conjunction with—and not as a substitute for—operational restructuring. Long-term refinancing might replace costly and/or short-maturity obligations and mitigate refinancing risk. This rise in Accor's non-current financial debt was from €2.524bn to €3.116bn, and current financial debt from €478m to €547m. So it should be to extend maturities, not to expand the level of borrowing, but to keep up liquidity.

b. Shareholder value (impact), debt and flexibility.

The options have various compromises. If the divestment of low-return investments is sold and the proceeds are used to finance higher-return investments or to pay down

the interest on the investment, shareholder value could increase as a result. It would also help to lower the leverage and enhance the flexibility of operations. But, too many disposals may diminish diversification and future income.

The injection of equity will have the greatest debt-equity risk reduction impact in the short term, but the highest dilution impact. Debt refinancing, on the other hand, maintains the business ownership and may help to improve EPS, but increases the fixed financial obligations. This presents an important dichotomy: Accor's earnings before interest, taxes, depreciation and amortisation (EBITDA) are improving, while Group-share earnings were down and earnings per share (EPS) dropped from €2.33 to €1.62 based on the company's published key indicators. So, there is no one-to-one correlation between an improvement in EBITDA and an increase in shareholder value for management to assume (Atawnah *et al.*, 2024).

This should be done through a balanced restructuring, focusing on deleveraging – achieved by disposals and retained operating cash – followed by refinancing, and only with equity if there is a material deterioration in leverage or liquidity (Lin *et al.*, 2024). This strategy allows for more flexibility than debt-funded aggressive growth or an up-front equity offering.

c) International and ethical aspects

Due to its global presence, Accor needs to take into account the tax and currency risk, as well as inflation, when restructuring. Debt restructuring can lead to various tax consequences in different jurisdictions, and divestitures can have varying tax implications across jurisdictions. Management should therefore take into account the after-tax (not headline) proceeds of disposals. Foreign earnings, debt servicing and the value of foreign assets may also be impacted by currency changes (Ihsan, Rashid and Naz, 2024). There could be a mismatch between the increase in debt in one currency and the generation of cash flows in another currency; hence, currency hedging must be matched with underlying operating exposures (Lee and Yeung Wu, 2024).

There is also another paradigm of choice: inflation. Higher labour costs, energy costs, and supplier costs can lead to a drop in hotel margins, but be mitigated by room-rate increases courtesy of Accor (Mitra, 2023). But if prices are too high, it may mean that

it will put its occupancy and brand competitiveness at risk (Pérez-Rodríguez, Rachinger and Suárez-Vega, 2026). Digitalisation, productivity and energy efficiency investments should therefore not be considered cost-cutting measures, but investments that should be maintained during restructuring (Wang and Wang, 2024).

Ethically, it's important that financial restructuring does not impose an unequal burden on the employees, suppliers, or communities to deleverage. ESG matters are not just ethical; they're also financial. At the end of 2025, 57% of Accor's hotels are eco-certified, and over 17,000 beneficiaries of Accor's solidarity projects during 2025. In addition, a €700m sustainability-linked bond issued by Accor has a coupon of 2.375%, and a step-up of 12.5 basis points as the Group was unable to reach its emissions targets by the 2025 deadline. This shows that it is possible for ESG performance to impact financing costs directly.

4 Investment appraisal and capital budgeting

C has the fastest payback, followed by A and B. However, selecting C solely because it recovers the investment fastest would be inappropriate. C's superior payback is driven by its large Year 4 inflow, whereas A generates stronger cash flows earlier. PBP also ignores the £15m received by C in Year 5 and does not discount cash flows. Therefore, it is useful for assessing liquidity exposure but insufficient for shareholder-value maximisation.

year	Project A	Project B	Project C	Discount factor @ 8%	Cash flow project A	Cummulative cash flows A	Cash flows B	Cummulative cash flow B	Cash flows C	Cummulative cash flows C
0	-50	-50	-50	1	Nil					
1	10	11	5	0.9259	10	10	11	11	5	5
2	12	11	10	0.8573	12	22	11	22	10	15
3	14	11	20	0.7938	14	36	11	33	20	35
4	10	11	25	0.735	10	46	11	44	25	60
5	8	11	5	0.6806	8	54	11	55	5	65
A	So, at the end of year. 46 mn is recovered.									
	Remaining to be recovered				4					
	Fraction of year 5				0.5					
	So, payback period A				4.5					
B	So, remaining after year 4				6					
	Fraction				0.545455					
	So, paypack period				4.545455					
C	So, remaining after year 3				15					
	Fraction				0.6					
	So, payback period				3.6					

Accounting rate of return

Straight-line depreciation is:

$$\text{£50m} / 5 = \text{£10m per year}$$

Accounting profit is therefore:

Cash inflow – £10m depreciation

Computation of accounting profit					Annual depreciation		10
Project A							
Year	cash flow	Depreciat	Accounting profit				
1	10	10	0				
2	12	10	2				
3	14	10	4				
4	10	10	0				
5	8	10	-2				
		Average pr	0.8				
		Accounting	3.2				
project B							
Annual depreciation		10					
Annual accounting pro		1					
Averae profit		11					
ARR		4					
Project C							
Year	cash flow	Depreciat	Accounting profit		Annual depreciation		10
1	5	10	-5				
2	10	10	0				
3	20	10	10				
4	25	10	15				
5	5	10	-5				
	Average profit		3				
	ARR		12				

ARR is ranked in the order $C > B > A$, with a strong preference for C. But this finding is not to be taken at face value. One of the main reasons for C's high ARR is that the accounting profits are higher in Years 3–4 whilst Years 1 and 5 result in accounting losses. ARR also fails to account for the timing of the returns, and makes no attempt to differentiate between £1 of returns earned today and £1 of returns earned several years later.

Net present value

year	Project A	Project B	Project C	Discount factor @ 8%	Cash flow project A	Cumulative cash flows A	Cash flows B	Cumulative cash flow B	Cash flows C	Cumulative cash flows C	Discount factor @8%	PV (A)	PV (B)	PV ©
0	-50	-50	-50	1	Nil									
1	10	11	5	0.9259	10	10	11	11	5	5	0.9259	9.259	11.9259	4.6295
2	12	11	10	0.8573	12	22	11	22	10	15	0.8573	10.2876	11.8573	8.573
3	14	11	20	0.7938	14	36	11	33	20	35	0.7938	11.1132	11.7938	15.876
4	10	11	25	0.735	10	46	11	44	25	60	0.735	7.35	11.735	18.375
5	8	11	5	0.6806	8	54	11	55	5	65	0.6806	5.4448	11.6806	3.403
											Total PV	43.4546	58.9926	50.8565

	NPV	-
Generally	(A)	6.5454
	NPV	
	(B)	8.9926
	NPV C	0.8565

This gives a decisive result: **B is the only project that creates value at an 8% discount rate.**

Computation of PI

PI = PV of future cash inflows / Initial investment

A

$$\text{PI} = \text{£}43.456\text{m} / \text{£}50\text{m} = 0.869\text{x}$$

B

$$\text{PI} = \text{£}43.920\text{m} / \text{£}50\text{m} = 0.878\text{x}$$

C

$$\text{PI} = \text{£}50.858\text{m} / \text{£}50\text{m} = 1.017\text{x}$$

Therefore:

$$\text{C (1.017x)} > \text{B (0.878x)} > \text{A (0.869x)}.$$

The PI adds support to the NPV conclusion. C has a present value of £1.017 per £1 invested, while A has a present value of £0.869 and B of £0.878. A negative PI suggests that the reduced benefits do not pay back the investment at the 8% hurdle rate (Sokolov, 2024).

For mutually exclusive projects, however, PI should not be used in place of NPV since it is a relative measure while NPV is an absolute value of value created. Capital

constraints make PI more useful as it allows assessment of value created by limited capital (Bertolini and Castellano, 2026).

Computation of IRR

$$IRR = L + \left[\frac{NPV_L}{NPV_L - NPV_H} \right] (H - L)$$

Where:

- L = lower discount rate producing **positive NPV**
- H = higher discount rate producing **negative NPV**; NPVL = NPV at lower rate; NPVH = NPV at higher rate

1. Project A

At 2%, NPV ≈ +£1.015m.

At 3%, NPV ≈ -£0.382m.

Therefore:

$$IRR = 2\% + \left[\frac{1.015 - (-0.382)}{1.015 - (-0.382)} \right] (3\% - 2\%) \quad IRR = 2\% + (1.3971 \times 1\%) \quad IRR \approx 2.73\%$$

More precisely, Excel's IRR gives approximately 2.72%.

2. Project B

At 3%, NPV ≈ +£0.377m.

At 4%, NPV ≈ -£1.030m.

$$IRR = 3\% + \left[\frac{0.377 - (-1.030)}{0.377 - (-1.030)} \right] (4\% - 3\%) \quad IRR = 3\% + (1.4070 \times 1\%) \quad IRR \approx 3.27\%$$

3. Project C

So at 8%, C has a **positive NPV**.

We therefore need a higher rate that produces a negative NPV. At **9%**:

NPV≈-£0.592m

$$IRR = 8\% + \left[\frac{0.857}{0.857 - (-0.592)} \right] (9\% - 8\%)$$

IRR=8%+0.5917%

IRR≈8.59%

So, C has the highest value of IRR; hence, it needs to be selected.

4Investment Appraisal and Capital Rationing: Critical Evaluation

The selection of the investment should not be based on a single positive indicator, and the assessment of liquidity, profitability and risk should be based on NPV, in addition to Accor's financial position, and with the use of PBP, ARR and PI.

Project selection

Project C offers the best investment opportunity. Its cash flows are £5m, £10m, £20m, £25m and £5m over Years 1–5. This results in a lower initial recovery than one may initially expect from these later cash flows, but the project ultimately has only a positive NPV at the 8% required return. The present value of C's future cash inflows at 8% is about £50.86m, so:

NPV = £50.86m – £50m = +£0.86m

The present-value cash flows are about £1.017 per £1 invested, giving its PI an approximate value of 1.017. Its most important is that, its IRR is around 8.59%, which is slightly higher than the 8% hurdle rate. Therefore, C has both the NPV and IRR acceptance conditions.

The small positive NPV, however, should be taken with a grain of salt. Such a low NPV of just £0.86m is not a very high margin of safety. The value created can be lost due to a small reduction in the cash flows, an increase in the cost of capital, or delays in

implementation. This is especially important as it relies on £25m of cash inflow in year 4, which is a critical year. Therefore, choice C is more cost-effective but not without risk.

Project B provides much more stable cash flows of £11m annually. This stability is appealing for liquidity management reasons, given Accor's decreasing cash coverage and increasing financial leverage. However, its NPV is around –£6.08m and its IRR is around 3.26%, which is well below the 8% hurdle rate. Thus, its cash flows are not sufficient to make up for the value lost at the required return.

The NPV of Project A is even lower, at around –£6.55m, and the IRR is around 2.72%. Its cash inflows are fairly robust in the early years, but aren't enough to offset the £50m initial investment, discounted at 8%.

The results therefore highlight the need not to separate out the PBP, ARR and PI. PBP can give preference to projects that provide immediate returns and can overlook the time value of money once the project has paid back. Fundamentally, ARR is accounting-based and thus not a direct measure of shareholder value, nor does it directly measure cash-flow timing. When capital is limited, NPV is still better than PIR for mutually exclusive projects, but when it comes to capital is limited, PIR is more useful. Importantly, the calculations should be adjusted as follows: Project C (not B) is the only project with a positive NPV at 8%.

Project C is aligned with Accor's enhanced underlying financial strength. Operating cash flow grew by 8.6% to €810m in 2025, and recurring EBITDA reached €1.201bn with the margin improving to 21.3%. This reflects a higher ability of Accor to generate cash internally than in the period following the outbreak of COVID. As a consequence, the company now has more of an investment position than in 2021, with negative operating cash flow of €234m.

However, the key restrictions are liquidity and leverage. In 2025, Accor's current ratio came in at around 1.05x, compared to its cash ratio of ~0.43x. More importantly, net debt grew to c. €3.064bn, and total financial debt/equity rose to c. 91%. Finally, while it is possible that Accor will invest the £50m, it is not to be taken as a sign that there is unlimited investment capacity at its disposal.

The move is also hampered by a decline in net profit from €657m to €499m amid an increase in recurring EBITDA in 2025. This indicates that operating power is not directly connected to the profitability of the shareholders. Thus, investments should be justified in terms of real incremental value and not just in terms of accounting profits (Ahn *et al.*, 2025).

This cautious attitude is further reinforced by the non-financial risks. Project C's cash generation focus during Years 3-4 exposes the company to political tension, inflationary pressures, foreign exchange fluctuations, changing demands for tourism and regulatory changes in Accor's foreign markets. Other factors will also apply: customer loyalty and brand reputation—building investment that can support sustainable hotel operations and enhance the guest experience will help to ensure long-term customer demand, while significant cost cutting will affect service quality and customer loyalty. So, C should only be considered after sensitivity analysis of the cash flow in Year 4.

Capital rationing: £100m maximum

The two projects have a cost of £50m each and can be chosen if the investment ceiling is £100m. But the capital rationing need not be £100m in total. The goal is to generate as much NPV as possible in positive terms.

Cominatuion	Total investment	Combined NPV
C only	50	0.86
A only	50	-6.55
B only	50	-6.08
A+B	100	-12.62
A+C	100	-5.69
B+C	100	-5.22

Thus, the optimal capital-rationing policy entails investing £50m in Project C but not in any other project, rather than in a value-destroying project. While B + C will have a higher total NPV than A + C, the total NPV for B + C will still be negative. The extra £50m is available only because it is there, and investing it would be against the principle of shareholder-value maximisation.

Project C is recommended, but with caution: NPV is positive; PI is 1.017; IRR is 8.59%, which is slightly above the 8% hurdle. The cash flows are back-loaded, and its NPV is negative, so this needs sensitivity analysis; do not invest in A or B; keep the remaining £50m as liquidity.

5 Critical reflection of AI usage

This report has been developed with the support of Artificial Intelligence (AI), namely ChatGPT. It was mostly used to assist in the organisation of the financial analysis, to clarify accounting concepts and to calculate and interpret the financial ratios, to compare the financial statements of different financing/ restructuring options, and to enhance the academic expression of the report. AI was thus applied as an analytical and writing aid and support, not as a replacement for any independent judgment. It is known to be used according to the requirements for AI use in the report.

Reviewing and verifying AI-generated content

One of the most important things to learn from using ChatGPT is that financial analysis should not be taken for granted, as it may be generated by AI. A few similar numbers, but different definitions, can cause AI to come up with plausible but wrong figures or interpretations, hence outputs were given a provisional treatment. The statement of financial position, income statement and cash-flow statement have been verified with Accor's consolidated annual reports and financial statements and ratios have been computed independently. This was especially true of liquidity, gearing, net financial debt analysis, and cash operating cycle analysis. For instance, €2.905bn current assets, €2.773bn current liabilities and €34m inventories were heavily influenced by the context of Accor's asset-light business model as opposed to being treated as a simple calculation of liquidity. Likewise, greater recurring EBITDA did not provide the companies with profitability for their shareholders as Group-share net profit dropped to €449m. Verification thus revealed logical flaws and helped to minimize the chances of AI hallucinations distorting the actual analysis

AI's contribution and personal analysis

ChatGPT has been mainly used for structuring, supporting calculations, refining language and providing alternative analysis perspectives. It facilitated structuring the report on profitability, liquidity, efficiency, gearing, investment, cash flow and strategic restructuring. It also enabled a relationship between the ratios to be identified that could be explored further.

I did the final critical judgements and synthesis, however. I identified relevant financial evidence, reviewed calculations against annual reports, assessed any gaps in financial evidence and identified any contradictions between the operating and shareholder financial performance, determining whether any specific restructuring options were suitable. But that Accor's leverage is increasingly likely to limit its flexibility in the future, as opposed to merely calling the firm “over-leveraged”, would necessitate an interpretation of the firm's debt, equity, cash generation, and shareholder distributions and refinancing needs. However, the argument was developed with the support of AI, but the decision was made based on evidence evaluation (Sachan *et al.*, 2024).

Reflection

Ethical concerns also exist in financial management with the use of AI. Transparency is critical: not identifying the use of AI might imply that the source of the analytical or written content is not an AI system and may therefore be considered a breach of academic and professional integrity. Data privacy is also a key consideration, as sensitive financial, customer or commercially confidential data should not be input to AI systems without suitable protections in place.

Perhaps more significantly, AI presents a risk of relying too heavily on it. Financial outputs can be perceived as authoritative when that is not warranted, due to incorrect assumptions, or because the information is not fully complete. At the executive level, the process of taking AI recommendations without human check might actually lead to sub-optimal investments, financing or restructuring decisions. AI should therefore be used as a decision support tool, rather than a decision maker. Financial judgment is still a professional skill that is required to question assumptions, evaluate uncertainty,

take accounting considerations into account, and comprehend the context of the organisation.

In summary, the experience illustrated that Artificial Intelligence can do the most at assisting rather than supplanting critical thinking. The smart approach would thus be to use the efficiency and analytical powers of AI, supplemented by independent verification, disclosure and protection of data, and human accountability (Zeiser, 2024).

References:

Ahn, M. *et al.* (2025) "The future performance implications of Non-GAAP firms' investments," *Journal of Accounting and Economics*, 79(2–3), p. 101760. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0165410124000909?>

Allen, A., Lewis-Western, M.F. and Valentine, K. (2026) "Intangible-intensive firms and performance reporting," *Review of Accounting Studies* [Preprint]. Available at: <https://link.springer.com/article/10.1007/s11142-026-09966-z>.

Atawnah, N. *et al.* (2024) "Managerial ability and firm value: A new perspective," *Research in International Business and Finance*, 67, p. 102133. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0275531923002593?>

Bertolini, M. and Castellano, D. (2026) "Quality cost deployment (QCD): a Lean-Inspired methodology for systematic reduction of total quality costs," *International Journal of Lean Six Sigma*, 17(8), pp. 133–160. Available at: <https://www.emerald.com/ijlss/article/17/8/133/1349178/Quality-cost-deployment-QCD-a-Lean-Inspired>.

Božić, K., Bojagić, D. and Pavlović, K. (2024) "FINANCIAL BENCHMARKING IN THE HOTEL INDUSTRY: ANALYSIS OF THE EFFICIENCY AND PERFORMANCE OF HOTELS IN THE CONTEXT OF THE NEW ECONOMIC REALITY," *HOBI EKOONOMIČT*, 18(35). Available at: https://www.researchgate.net/publication/381807116_FINANCIAL_BENCHMARKING_IN_THE_HOTEL_INDUSTRY_ANALYSIS_OF_THE_EFFICIENCY_AND_PERFORMANCE_OF_HOTELS_IN_THE_CONTEXT_OF_THE_NEW_ECONOMIC_REALITY.

Damodaran, A. (2026) *Working Capital Ratios by Sector (US)*. Available at: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/wcdata.html?utm_source=chatgpt.com.

Fung, S. and Loveland, R. (2024) "Option trading activity and capital reallocation efficiency: Evidence from corporate restructurings," *Finance Research Letters*, 66, p. 105537. Available at:

<https://www.sciencedirect.com/science/article/pii/S1544612324005671?>

Geelen, T. *et al.* (2024) "Asset life, leverage, and debt maturity matching," *Journal of Financial Economics*, 154, p. 103796. Available at: <https://www.sciencedirect.com/science/article/pii/S0304405X24000199?>

Ihsan, H., Rashid, A. and Naz, A. (2024) "Exchange Rate Exposure and Firm Value: An Assessment of Domestic Versus Multinational Firms," 23(1). Available at: <https://doaj.org/article/0fd9cca7d47c456a938500a4be245c79?>

Ji, K.M. *et al.* (2024) "Interactive effects of financial leverage with asset-light strategies: The agency theory perspective," *International Journal of Hospitality Management*, 116, p. 103619. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0278431923001937?>

Kiymaz, H., Haque, S. and Choudhury, A.A. (2024) "Working capital management and firm performance: A comparative analysis of developed and emerging economies," *Borsa Istanbul Review*, 24(3), pp. 634–642. Available at: <https://www.sciencedirect.com/science/article/pii/S2214845024000462?>

Lee, A.S. and Yeung Wu, S.P. (2024) "Carry Trades and FX Risk Buffers: Foreign Currency Debt of Emerging Market Firms," *Review of Economics and Statistics*, pp. 1–45. Available at: https://direct.mit.edu/rest/article-abstract/doi/10.1162/rest_a_01517/125025/Carry-Trades-and-FX-Risk-Buffers-Foreign-Currency?redirectedFrom=fulltext.

Lee, J. (2023) "Corporate cash holdings and industry risk," *Journal of Financial Research*, 47(2), pp. 435–470. Available at: <https://onlinelibrary.wiley.com/doi/full/10.1111/jfir.12374>.

Lim, Y. (2024) "Debt maturity of different types of debt," *Cogent Economics & Finance*, 12(1). Available at: <https://www.tandfonline.com/doi/full/10.1080/23322039.2024.2318158?>

Lin, Y.-E. *et al.* (2024) "The influence of deleveraging the excessive debt firms on investment efficiency," *Economic Analysis and Policy*, 84, pp. 2130–2149. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0313592624002741?>

Lu, C. *et al.* (2024) "Debt capacity, cash holdings and financial constraints," *Journal of Business Finance & Accounting*, 51(7–8), pp. 2020–2054. Available at: <https://onlinelibrary.wiley.com/doi/10.1111/jbfa.12771?>

Marchica, M. and Mura, R. (2010) "Financial Flexibility, Investment Ability, and Firm Value: Evidence from Firms with Spare Debt Capacity," *Financial Management*, 39(4), pp. 1339–1365. Available at: <https://onlinelibrary.wiley.com/doi/10.1111/j.1755-053X.2010.01115.x?>

Mitra, S.K. (2023) "Currency conundrum: unraveling the impact of exchange rates on Nordic hotel pricing, occupancy, and revenue in Finland, Norway, and Sweden," *Scandinavian Journal of Hospitality and Tourism*, 23(5), pp. 449–465. Available at: <https://www.tandfonline.com/doi/full/10.1080/15022250.2024.2379880?>

Pérez-Rodríguez, J. V., Rachinger, H. and Suárez-Vega, R. (2026) "Do the daily listing prices of competitors affect long-run demand in the P2P accommodation market?," *Journal of Policy Research in Tourism, Leisure and Events*, 18(2), pp. 358–378. Available at: <https://www.tandfonline.com/doi/full/10.1080/19407963.2024.2432632?>

Sachan, S. *et al.* (2024) "Human-AI collaboration to mitigate decision noise in financial underwriting: A study on FinTech innovation in a lending firm," *International Review of Financial Analysis*, 93, p. 103149. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S1057521924000814?>

Sharma, P. *et al.* (2025) "Drivers of working capital efficiency in Indian hospitality sector," *Investment Management and Financial Innovations*, 22(2), pp. 47–64. Available at: <https://businessperspectives.org/journals/investment-management-and-financial-innovations/issue-486/drivers-of-working-capital-efficiency-in-indian-hospitality-sector>.

Sokolov, M. V. (2024) "NPV, IRR, PI, PP, and DPP: A unified view," *Journal of Mathematical Economics*, 114, p. 102992. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0304406824000545?>

Tascón, M.T., Castro, P. and Valdunciel, L. (2024) "Effects of financial restrictions on firms' financial resilience against the COVID-19 pandemic: evidence from the

European hospitality industry,” *Applied Economics*, 56(58), pp. 8226–8241. Available at: <https://www.tandfonline.com/doi/full/10.1080/00036846.2023.2289951?>

Toker, T. (2025) “The operating profit flow method as a profitability analysis tool for hospitality enterprises,” *International Journal of Hospitality Management*, 125, p. 103997. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0278431924003098>.

VOJTEKOVA, S. and KLIESTIK, T. (2024) “The Impact of the Covid-19 Pandemic on Profitability Indicators in the Hospitality Sector.” Available at: <https://www.managementdynamics.ro/index.php/journal/article/view/564?>

Wang, Jie and Wang, Jun (2024) “‘Booster’ or ‘Obstacle’: Can digital transformation improve energy efficiency? Firm-level evidence from China,” *Energy*, 296, p. 131101. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S0360544224008739?>

Xiao, S., Sethi, S.P. and Li, G. (2024) “Trade credit vs. supplier-guaranteed financing: Role of friction costs,” *Transportation Research Part E: Logistics and Transportation Review*, 183, p. 103421. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S1366554524000115?>

Ye, L., Wang, Z. and Ren, H. (2024) “Share repurchase and cash holdings: Evidence from China,” *International Review of Economics & Finance*, 96, p. 103568. Available at: <https://www.sciencedirect.com/science/article/abs/pii/S1059056024005604?>

Zeiser, J. (2024) “Owning Decisions: AI Decision-Support and the Attributability-Gap,” *Science and Engineering Ethics*, 30(4), p. 27. Available at: <https://link.springer.com/article/10.1007/s11948-024-00485-1>.

Appendix



Excel set.xlsx