SMOKE AND MIRRORS

Companies that rely on the mystique of luxury and celebrity

Lionsgate · Netflix · PVH · Oberoi Hotels (EIH Ltd)

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Corporate Finance Group Project – Spring 2015

I. Corporate Governance Breakdown – CEO

Company	LIONSGATE	NETFLIX	PVH	
Name	Jon Feltheimer	Reed Hastings	Emanuel Chirico	Vikram Oberoi
Age	63	53	56	50
Tenure at Firm	15 years	18 years	22 years	24 years
Tenure as CEO	15 years	17 years	9 years	1 month
Annual Salary	$1,465,428	$1,952,308.00	$1,350,000	INR 5,040,000
Other Options	$64,863,033	$29,562,634	$88,454,067	INR 15,010,000
Total Compensation	$66,328,461	$7,732,857	$4,055,768	INR 20,050,000
Stock Ownership	4.3M options	0%	none	5.1M shares

Analysis –

- Vikram Oberoi is the only CEO with little time as CEO, all other companies have established a legacy at the CEO position (9 years or more)
- All CEOs are hired from within the firm - no outsiders as CEOs
- Only Oberoi (and his family) owns a lot of stock, making agency over decisions for the others a possible issue
- Oberoi has a good reputation within the industry and company, however, he is not immune to problems of hereditary succession in family group companies

I. Corporate Governance Breakdown – Board of Directors

	LIONSGATE	NETFLIX	PVH	
Number of Members	13	9	13	12
Average Age of Members	61.5	56	59	63.5
Number of Insiders	1	1	2	6
CEO = Chair of Board	No, Mark Rachesky	Yes	Yes	No, Exec Chairman
% of Insiders	8%	11%	15%	50%
CEOs in Other Companies	3	0	2	2
% of CEOs	23%	0%	15%	17%
ISS Corp Gov. Score (1 least risky, 10 most risky)	9	10	2	n/a

Analysis -

- While three companies have <15% insiders on the Board, Oberoi Hotels has 50% insiders, which calls into question the board's independence. In fact, the Oberoi board is led by four members of the Oberoi family, and three of the members are tied to Reliance, which has an 18.5% stake in the company. Further, Prithviraj Oberoi, former CEO and father of Vikram stays on as Chairman of the Board
- Netflix is the smallest board (9 members) and Reed Hastings is CEO and Chairman, which makes the corporate governance questionable, especially given his long tenure and the fact that he founded the company
- PVH's CEO is Chairman of the Board and its board has two insiders. That, given the absence of activist investors, means that there are few checks on management power

I. Corporate Governance Breakdown – Societal Perception

Company	LIONSGATE	NETFLIX	PVH	
Mission Statement	Lionsgate Entertainment is a leading global entertainment company with a strong and diversified presence in motion picture production and distribution, television programming and syndication, home entertainment, family entertainment, digital distribution, new channel platforms and international distribution and sales	Becoming the best global entertainment distribution service, licensing entertainment content around the world, creating markets that are accessible to filmmakers, helping content creators around the world to find a global audience	PVH's strategy is to take its powerful global iconic lifestyle brands and maximize their brand potential and consumer reach while staying true to PVH's unique brand DNA and core values.	"Together, we shall continue the Oberoi tradition of pioneering in the hospitality industry, striving for unsurpassed excellence in high-potential locations all the way from the Middle East to the Asia-Pacific."
CSR Initiatives	Lionshares - program to integrate employees and their families into the community via community service	Not a lot, due to the growth stage of the company. Netflix is still focused on growing, and does not undertake extensive CSR programs	Human rights programs, environmental initiatives including a robust Chemicals Management Action Plan, philanthropic focus on women, children, and education through a strategic partnership with Save The Children.	There is no overarching strategy for CSR. The Company and its employees donated over INR 60 lakhs to Uttarakhand flood relief. Individual hotels have taken part in ad-hoc soap recycling, youth training programs, arts festivals, fun runs, animal rescue programs, and wildlife restoration programs.
CSR Ranking (CSRHub)	54	48	60	55
Donations	Not mentioned in 2014 10-K	Not mentioned in 2014 10-K	$12.87MM	Not mentioned in 2014 reports

II. Market breakdown – Market Profiles

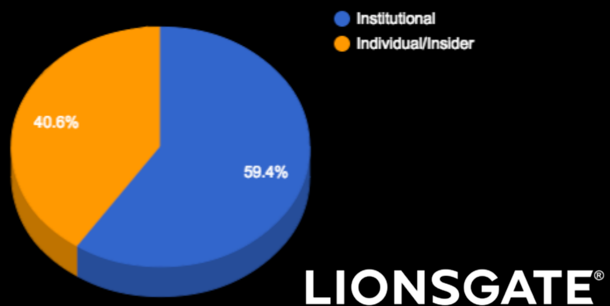
	LIONSGATE	NETFLIX	PVH	
Stock Exchange	NYSE	NASDAQ	NYSE	BSE
Debt Rating Coverage	Moody's	Moody's / S&P	Moody's	N/A
Debt Rating	BB-	Ba3 / BB-	Ba2	N/A
EBIT in MM	$268.2	$402.6	$707.9	INR 2148.9
Interest Expense MM	$66.26	$50.2	$144	INR 527.06
Interest Coverage Ratio	4.97	8.02	4.92	3.25
Ratio Rating	A3 / A-	A1 / A+	A3 / A-	A3 / A- (synthetic)
Analyst Coverage	12	61	34	5
Analyst Rating	1.8	2.4	2.2	Buy (ICICI)

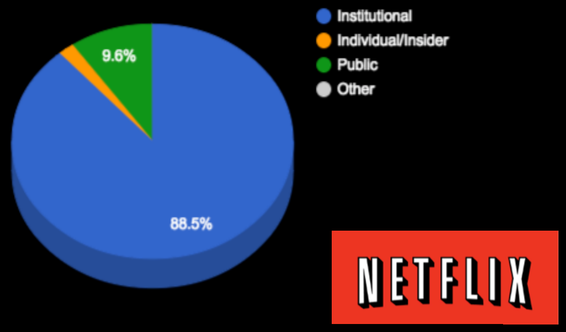
(Yahoo) *1.0 indicates strong buy

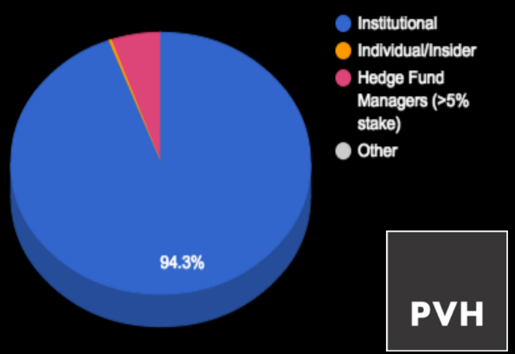
Analysis -

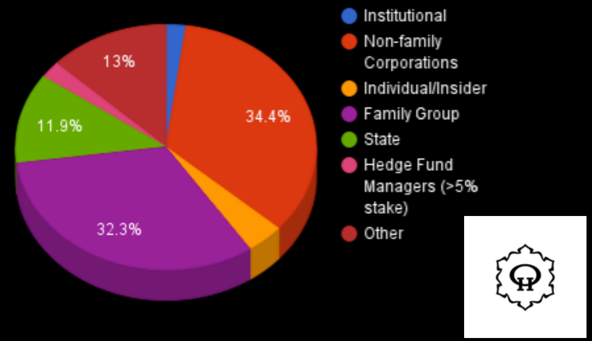
- All North American firms are covered by 12 or more analysts, Oberoi Hotels is covered by only 5
- Lionsgate, Netflix and PVH are all rated a buy on Yahoo (<2.5 rating), Oberoi is ranked a buy by ICICI
- Netflix has a good coverage ratio but its debt is rated very weak - largely due to the growth status of the company
- None of the companies have debt that is rated better than Ba2
- Accessing debt rating coverage for Oberoi hotels proved difficult, however ICICI Market analysis recently changed its recommendation from ‘Hold’ to ‘Buy’, but this could be suspect as ICICI has made more than INR 1 billion in loans to Oberoi Hotels

II. Market breakdown – Stockholder Analysis









Analysis -

- Institutional investors hold position as marginal investor in all North American companies
- The Oberoi family, through a variety of entities holds 32.3% of Oberoi Hotels. Reliance Industries and competitor ITC split the corporate segment with 19% and 15%, respectively
- Absence of activist investors at Netflix decreases the probability of shareholder backlash or bottom-up changes to Board of Directors - therefore, Netflix's Corporate Governance is further weakened
- Lionsgate has substantial insider holdings, suggesting influence from insider on marginal investor
- PVH's stock is held by 94.3% institutional investors, with the remainder held by hedge funds. These investors are likely to "vote with their feet" if they dislike management actions

III. Risk and Return - Top Down Analysis

	LIONSGATE	NETFLIX	PVH	
Raw Beta	.799	1.409	.704	0.802
Intercept	.829%	0.785%	-.270%	-0.047%
R-Squared	.138	0.100	.088	0.157
Jensen's Alpha (annualized)	10.36%	50.29%	-13.17%	-3.76%
Expected Return	6.63%	10.81%	6.45%	12.93%

Analysis -

- Netflix has a high Jensen's Alpha of 50.29% - they outperformed the market, as often seen in growth companies. However, 50% is still a considerable number, even for a growth company.
- On the contrary, both Oberoi Hotels and PVH underperformed the market as evidenced by their negative JAs, showing that retail and hospitality industries might be taking longer to recover from the economic downturn
- Entertainment industry average beta is 1.21, Lionsgate below and Netflix above reflecting higher risk and reward for Netflix, while Lionsgate - as a more established brand - has lower volatility but lower return

III. Risk and Return - Bottom Up Analysis

	LIONSGATE	NETFLIX	PVH	
Unlevered Beta (based on Industry)	1.21	1.2952	1.23	1.179
Share Price	$30.27	$472.29*	$109.75	INR 105.5
Shares Outstanding in MM	139.85	60.6	83	571.6
MVE in MM	$4,233.30	$28,573.55	$9,109	INR 62,644
MV of Debt in MM	$1240.8	$1072*	$6123	INR 7,006
D/E	29.31	3.75%	67.22%	11.18%
Levered Beta	1.59	1.3244	1.7484	1.2632

Analysis -

- Netflix Industry Beta - 5% Movie Production, 95% Internet Entertainment companies - percentages are estimates, since NFLX does not split up its revenues or COGS by production / acquisition of content
- Netflix has a very low Debt / Equity ratio, reflecting its status as growth company
- Oberoi Hotels industry betas are based on weights of 52.5% of business in hotel/gaming, 44.1% in restaurants, 1.4% in car rentals and 2% in publishing, which the company refers to as "sale of printed materials"
- PVH has the highest debt/equity ratio - 67.22% - which indicates high and constant cash flows needed to fund this level of debt. PVH also has the highest levered beta, which points to the fact that its products are fashion items, such as branded dress shirts and neckties, that are non-discretionary and sell on a cyclical basis.

*NFLX Stock price and Market Cap from date of analysis, not updated to reflect recent increase in stock price

III. Risk and Return - Bottom Up Analysis

	LIONSGATE	NETFLIX	PVH	
Unlevered Beta for Firm	1.1981	1.2952	1.2459	1.1838
Unlevered Beta for Op. Assets	1.3120	1.1884	1.2934	1.1892
Levered Beta for Firm	1.5954	1.3243	1.7484	1.2632
Levered Beta for Op. Assets	1.7472	1.2152	1.8152	1.2790

Analysis -

- One would expect relatively high betas across these companies because they specialize in discretionary products, be they in entertainment, fashion, or travel. However, only PVH and Lionsgate reflect this expectation, perhaps due to the cyclical nature of the movie and apparel businesses
- Netflix has a lower beta, which may reflect the fact that it is becoming more of a necessary household expenditure
- Oberoi's beta of 1.2 indicates that this business is rather discretionary, intimating use in by less price-sensitive travellers, like businesses travellers

III. Risk and Return - Cost of Capital

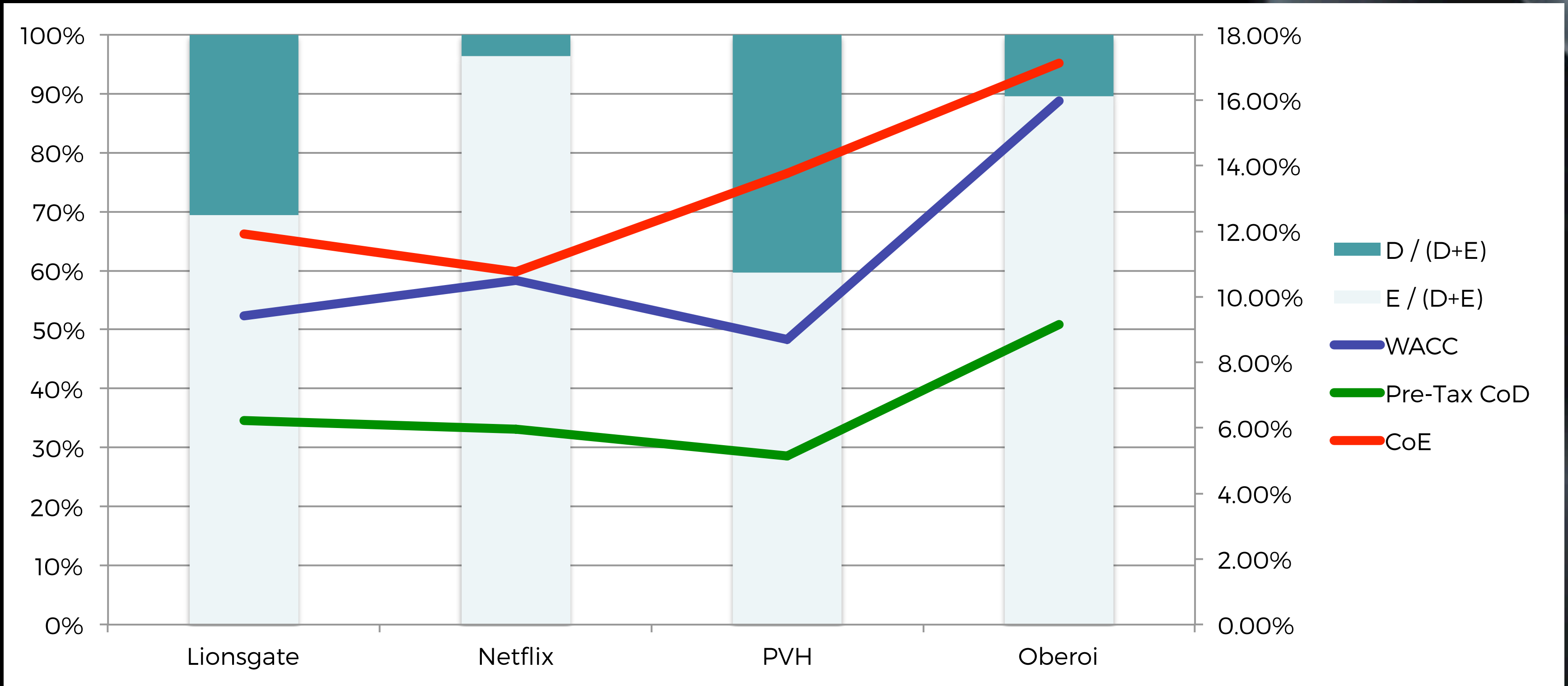
	LIONSGATE	NETFLIX	PVH	Oberoi
PV of ST & LT Debt in MM	$1096	$897	$4103.3	INR 4875
PV of Operating Leases in MM	$876.149	$175	$1816.12	INR 2,131
Total Debt	$1972.149	$1072	$5919.42	INR 7,006
Total Equity (Market Cap)	$4470	$28573.55	$8767	INR 60,300.6
Total Capital	$6442.149	$29645.55	$14686.42	INR 67,306.6
ERP	5.78%	6.07%	6.32%	9.07%

Analysis -

- Netflix's levered bottom-up beta is relatively high as the company is transitioning into the movie production space, which brings a higher beta than the entertainment sector in general
- Oberoi Hotels' weighted ERP is higher than the other companies as it conducts its business in India, Egypt, Indonesia, UAE, Mauritius, and Saudi Arabia, all of which carry an ERP higher than North American countries. There is a risk in calculating the ERP with this revenue data, as the visitors of these hotels might not be transacting in the local currencies, or coming from the countries in which the revenue is earned. If revenue streams were coming from visitors from countries with lower risk premiums, we could be overstating this premium, COE and WACC
- PVH and Oberoi have significantly higher lease commitments than the other brands -- PVH because of its large retail presence and Oberoi because many of its hotels sit on leased property

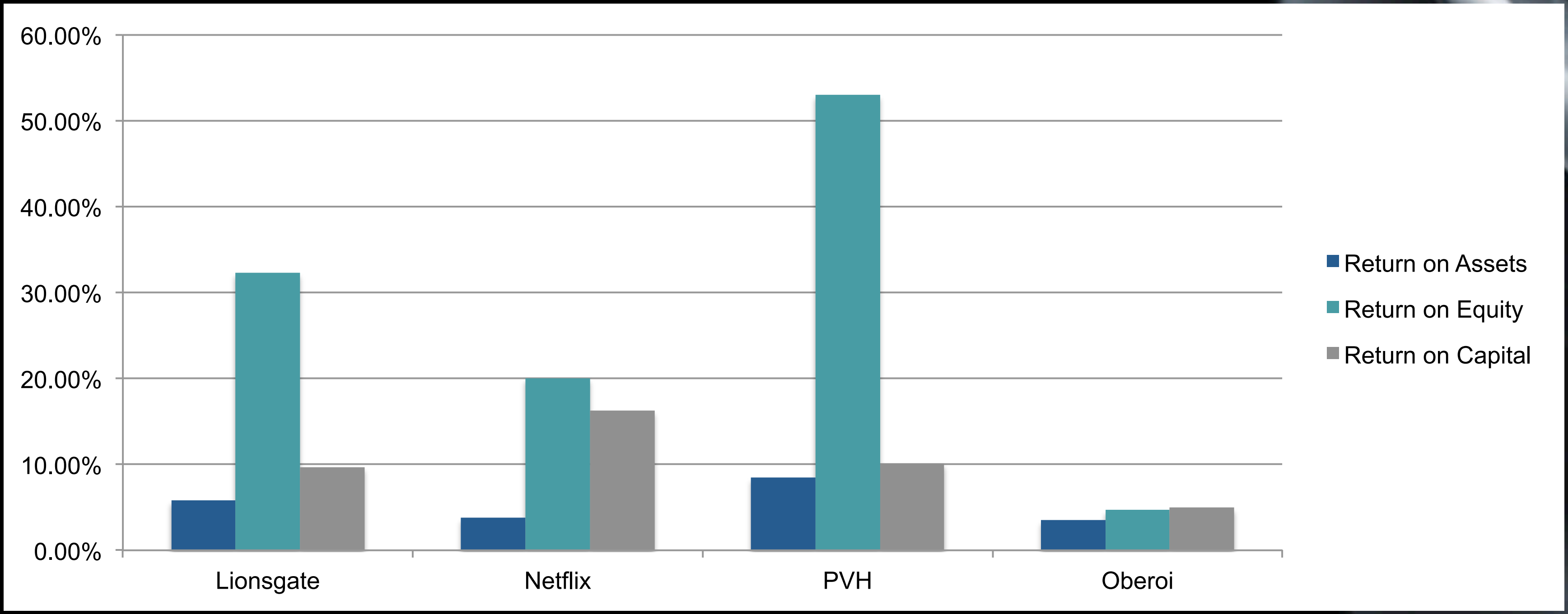
*NFLX Debt and Market Cap are from date of analysis - reflects 10-K 2014, not results from Q1 2015

III. Risk and Return - Cost of Capital



IV. Measuring Investment Return

LIONSGATE® NETFLIX PVH



Analysis -

- PVH had a significantly higher return on equity than the other companies. Our best assumption is that this anomaly is due to lingering accounting effects from the acquisition of Warnaco in 2013, as the three-year average (shown on the next page) is much lower
- Oberoi's returns are lagging the others, emphasizing a need to make operations more efficient, and keeping occupancy rates and utilization of properties high
- Netflix had relatively good Return on Equity, but a less than impressive return on assets, most likely due to the large number of content accounted for in assets

IV. Measuring Investment Return
Evaluating Past Returns

	LIONSGATE	NETFLIX	PVH	
ROE (3yr Average)	22.36%	11%	8.07%	4.70%
Cost of Equity	13.39%	10.76%	12.94%	17.12%
Equity Return	8.97%	0.24%	-4.87%	-12.42%
BV of Equity MM	584.5	1857.7	$4,364.30	INR 26,061.90
Equity EVA	52.42965	4.45848	-$212.54	-INR 3,236.89
ROC	13.08%	10.90%	8.45%	4.96%
WACC	8.51%	10.76%	8.69%	15.98%
ROC - WACC	4.57%	0.14%	-0.24%	-11.02%
BV of Capital MM	4,470	$2,787.31	$8467.6	INR 31,194.70
Firm EVA	204.279	$3.902234	-$20.32224	-INR 3437.66

Analysis -

- Netflix is adding some value, but not a huge amount - this might be due to the restructuring of the company towards producing their own content and the lasting effects of the decreasing DVD business
- Oberoi Hotels are destroying value by not making a return on Equity that is higher that its cost of equity and a return on capital lower than its weight-adjusted cost of capital
- PVH generates a negative EVA for both equity and firm, which indicates that it is not making enough on its projects to cover the cost of doing business.

*Reflects 2014 10-K results and stock prices in March 2015

V. Capital Structure Choices
Existing Financing

	LIONSGATE	NETFLIX	PVH	Oberoi
Market Cap of Equity ($mm)	$4,233.00	$28,573.55	$8,767.00	INR 60,300.6
Debt Due ($ mm)	$1,241	$900*	$4103.3	INR 4875
Loans vs. Bonds	36% Loans, 54% Bonds, 10% revolving cred	100% Bonds	77.2% loans, 22.5% bonds	100% Loans
Weighted Maturity (years)	3.92	7.33	4.93	3.89
Interest Rate on Books	17.80%	5.375% - 5.750% (depends on time issued)	4.5-7.75%	11.67%
PV of Leases ($ mm)	$123.00	$175.00	$1,675.62	INR 2131.01
Fixed vs. Floating	90% Fixed, 10% Floating	100% Fixed	77% fixed, 23% floating	100% Fixed
Currency	100% USD	100% USD	99.8% USD, .2% JPY	100% INR

Analysis -

- Netflix has a long average maturity and higher interest rates on its bonds, which reflect the status as growth company
- PVH has a relatively short weighted maturity on its debt, likely due to debt being tied to retail operating leases. The debt structure is a mix of loans and bonds using both fixed and floating rates, reflecting the complexity of PVH's financing needs.
- Oberoi Hotels has no bond issues at the moment, likely reflecting the fact that corporate bonds markets have been struggling in India

*Reflects 2014 10-K results and stock prices in March 2015

V. Capital Structure Choices Trade-Off on Debt

	LIONSGATE	NETFLIX	PVH	
Effective Tax Rate	17.8%	23.60%	22%	38.9%
Marginal Tax Rate	40%	40%	40%	32.45%
Tax Benefit of Borrowing	Yes	Yes	Yes	Yes*
Added Discipline of Debt	Low - management has a lot of controlling shares so stockholders don't have much of a say & there are low agency issues	Low. CEO holds stake in company, no agency problem. Debt not necessary to add discipline.	High. Low ROIC means low quality of projects and negative Jensen's alpha indicates low stock price performance.	Low. Current and Optimal debt ratio is only ~10%, and activist investors in Reliance and ITC can assert their their influence in promoting discipline. Further, insiders have high stock holdings.
Bankruptcy Risks/Costs	Medium, with most companies in the sector starting yo compete in different platforms, the company's production arms and library could be of interest	High. Tech sector in general is fast-paced, Cash flows are not steady.	Medium. Apparel is a trend-driven industry, but PVH has a strong base in staples like dress shirts and ties.	Medium. EBITDA is only 5% of Enterprise Value, intimating low cash flows available. However, having most of its assets in real estate, the company has high liquidity.

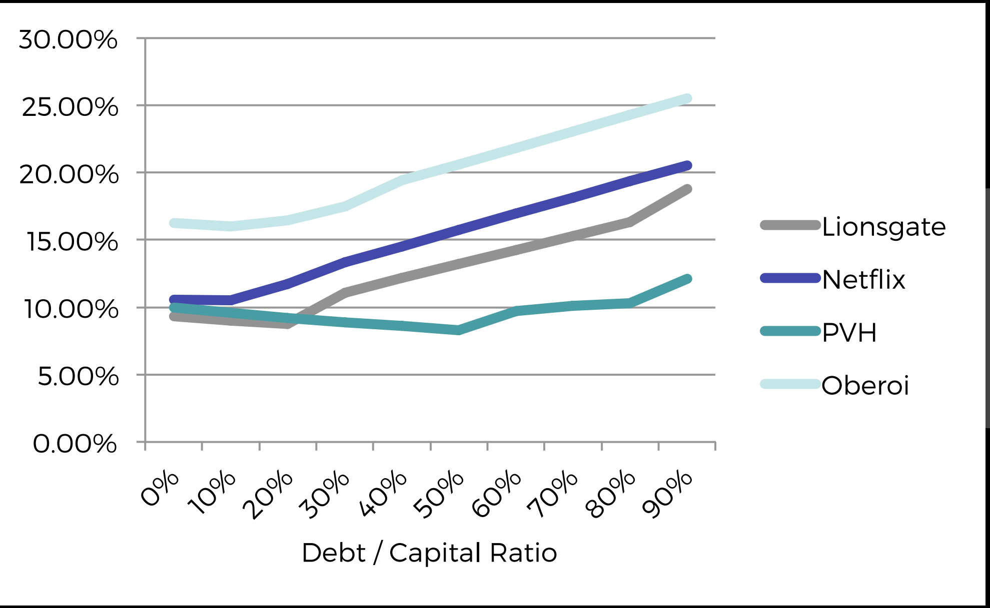
* Oberoi pays taxes in many countries, so the fact that its ETR > MTR reflects this. It is still indicative of a tax benefit.

V. Capital Structure Choices
Trade-Off on Debt

	LIONSGATE	NETFLIX	PVH	
Agency Cost	Medium - while many costs are variable to the production projects the company chooses to take on, the stockholders and management are interested in the same goals of profitable films and television shows. they are also in agreement on discovering new monetization and distribution platforms.	Medium. Tech companies have less tangible assets, therefore higher agency cost. However, NFLX management and stockholders have same objective - to grow company and generate profit. Additionally, not a lot of cash.	Medium. PVH has many fixed assets to back up borrowing.	Low. Oberoi has fixed assets in real estate to use as collateral for borrowing. Further, Oberoi is a high-profile company with a straight-forward business model and a history of borrowing and paying off debt, which gives lenders comfort.
Future Flexibility	high importance - the company needs to maintain the ability to be nimble in controlling costs and investing in new productions or technologies to maximize revenues.	Important factor, so the company should not take on large amounts of debt. Fast-paced industry requires flexibility.	Low. PVH is unlikely to make significant future capex investments since manufacturing is contracted and assets like retail stores and warehouses are leased.	Important, as growth either means acquiring or building new sites, which is incredibly capital intensive.

VI. Optimal Financing Mix
Cost of Capital at different Debt / Capital Ratios

Current Capital Ratio -
Lionsgate - 30%
Netflix - 3.59%
PVH - 40%
Oberoi - 10%



Optimal Capital Ratio -
Lionsgate - 20%
Netflix - 10%
PVH - 50%
Oberoi - 10%

LIONSGATE®

NETFLIX

PVH

Analysis

Overlevered - Lionsgate has taken on too much debt and should reduce debt to 20%.

Underlevered * - Despite Flexibility Issues and bankruptcy costs, NFLX should take on a bit more debt.

Underlevered - PVH should take on more debt.

Oberoi Hotels is at its optimal debt ratio. The problem is not the level of debt, but that its current business does not deliver a return higher than WACC.

*NLFX's current WACC is lower than its optimal WACC, as model only goes in 10%-increments. We predict the optimal WACC to be at 7-8% D/Cap Ratio.

VI. Optimal Financing Mix
Moving to the optimal mix

	LIONSGATE	NETFLIX	PVH	
Current Debt Ratio	29.44%	3.59%	37.96%	10.41%
Optimal Debt Ratio	20%	10%	50%	10%
Need for Change	Gradual	Gradual	Gradual	None
Type of Change	Take good projects	Take good projects with debt,	Take good projects with debt	
Threat of takeover?	Low	Low. Large Jensen's Alpha, insider holdings	Medium - negative Jensen's alpha but low insider holdings	Medium-High. Negative Jensen's Alpha, family group could be threatened by large shareholders Reliance and ITC
Threat of bankruptcy?	low	Low.	Low	Low
Future project strength?	Medium	Strong	Strong	Low: building or acquiring new hotels is capital intensive and the company is not innovating into alternate revenue streams
Change in firm value from moving to the optimal ($)	-$339*	n/a*	$907	INR 0
Change in firm value from moving to the optimal (%)	-0.05%	n/a*	6.4%	0%

*NLFX's current WACC is lower than its optimal WACC, as model only goes in 10%-increments. We predict the optimal WACC to be at 7-8% D/Cap Ratio.

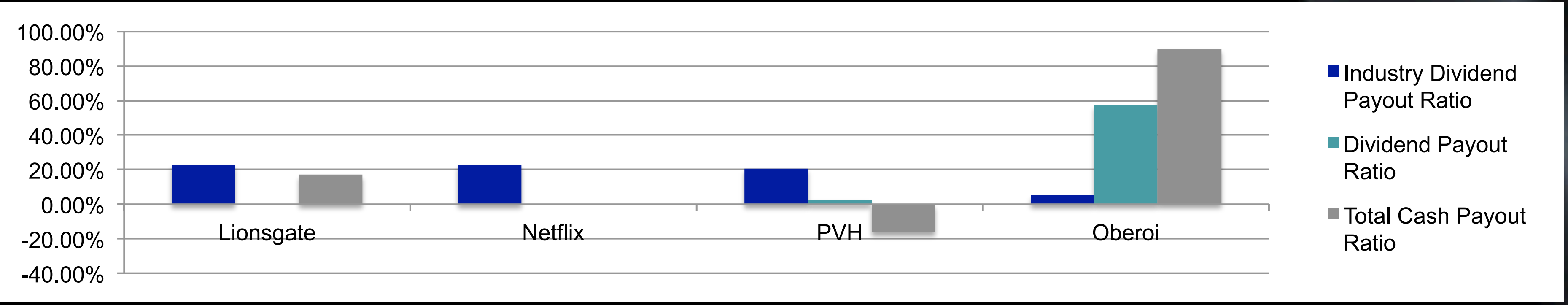
VI. Optimal Financing Mix Recommendations

	LIONSGATE	NETFLIX	PVH	
Move quickly or gradually?	Gradually	Gradually - no high risk of take-over	Gradually - not a high risk of a takeover	The optimal debt mix is very similar to what the company has, so the change in financing mix is not the solution
Project Based or Firm-wide Financing?	Project based, diversifies risk and allows for high returns	Project based - different content acquisitions and productions have different cash flows	Project based - consider making investments in supply chain efficiency and omnichannel retail	Not applicable (see above)
Short-term or Long-term?	short-term	Short-Term	Short-Term - leases are ideal for retail spaces	Not applicable (see above)
Currency mix?	stay focused on US market, but look at a more international mix of projects to maximize industry trends in programming and content	Increase international proportion to match the new revenue mix as international operations grow	Increase international proportion to match the new revenue mix as international operations grow	The currency mix is a useful option. If Oberoi could conduct its business in currencies other than the ones in which it has businesses (bringing in tourists from AAA-rated countries) this could help drive down ERP, and require the firm to pursue its business under lower WACC hurdle rates for projects.
Fixed or Floating Rate?	Fixed	Fixed Rate	Fixed Rate	n/a

VII. Dividend Policy
Analysis of Historical Dividend Policy

LIONSGATE | NETFLIX | PVH

	Lionsgate	Netflix	PVH	Oberoi
Accumulated Cash on BS in MM	$25.70	$1,113.60	$479.30	INR 1641.2
Total Dividends Paid in Last 5 years	$6.90	$0.00	$56.60	$2,986.10
FCFE		$3413	-$4,190.90	-INR 6,054.4
2013 Firm Dividend Yield (%)	0.00%	0.00%	0.14%	1.04%
2013 Firm Dividend Payout (%)	0.00%	0.00%	2.85%	62.50%
Payout Difference vs. Industry	-22.94%	-22.94%	-23.55%	57.32%
Total Stock Buybacks in Last 5 years in MM	$207.00	$410.00	$94.40	$0.00
Cash Payout Ratio	17.00%	0%	-16.16%	89.86%



VII. Dividend Policy Snapshot and Outlook

	LIONSGATE®	NETFLIX	PVH	
Snapshot	Lionsgate just started paying quarterly dividends at the end of 2013 at the discretion of the board of directors. They had not paid dividends in at least 5 years prior to that, noting their 2008 10-k that they would likely focus on reinvesting in the company. Since they started paying dividends on common stock, the amount has ranged from 3-7 cents per common stock share.	No dividends reflects the fact that Netflix is a nascent company. It's also a signal that CF are not yet stable enough and that retained Earnings are reinvested. Company also wants to remain flexible in the space it finds itself in.	PVH pays $.16 annual dividends. Since it is a company in the "mature growth" stage of its lifecycle and has a fair amount of cash on its balance sheet, it should consider paying higher dividends to its investors.	Oberoi Hotels pays an annual dividend of between INR .09 and INR 1.2, and stockholders are used to this dividend. However, the majority of stockholders are insiders to the company and should be willing to decrease their dividend received for the benefit of employing those funds to either buy back shares, or to reinvest in more profitable, innovative lines of business for the firm.
Implication & Outlook	Lionsgate must focus on new distribution platforms and maximizing their growth segment of television production. They are competing with blockbuster films against other established studios, which is indicative of high risk. The dividends seem arbitrary and not particularly wise given how levered the company is, and how much they really should be investing in the business.	Stock buyback has ended in 2012, since then the company reinvests all retained earnings. This will remain the case for the time being, as company becomes more levered and focuses on growth.	PVH faces earnings volatility because of the trend-driven nature of the fashion business and the foreign exchange risk that comes from being a global business, so they should not increase dividends and be stuck paying them. PVH also has 94.3% institutional investors, so it does not face huge pressure from below to pay more dividends.	Oberoi Hotels is likely to continue to pay dividends as it is rooted in its tradition as a company. Further this plan benefits the insiders and board members, all of whom have large shareholdings. However with such a low ratio of EBITDA to Enterprise Value, and such poor performance of ROIC, these funds would be better put to use making the operations more efficient and exploiting brand equity to expand into more profitable business lines.

IX. A Framework for Analyzing Analysis Summary

Dividends and Stock Buybacks	Quality of Projects - ROE > COE: Poor Projects	Quality of Projects - ROE > COE: Good Projects
Cash Surplus	PVH Significant Pressure to Pay Out more as Dividends and Buybacks	NETFLIX Most flexible in setting dividend and buyback policy
Cash Deficit	Cut Dividends and Buybacks - Change investment Policy	LIONSGATE Reduce Cash Payouts - cut both dividends and buybacks

Deviations from Dividend Payout Policy

LIONSGATE Lionsgate started paying dividends in 2014, and it remains to be seen whether this is a long term strategy.

NETFLIX No deviation. Since 2012, there have been no buybacks or dividends as NFLX focuses on growth.

PVH In 2013, PVH did a significant equity buyback as part of the acquisition of Warnaco.

Though shareholders are used to receiving a dividend, the company should consider reducing this to use the funds for reinvestment to help make the business more efficient

X. Valuation

	LIONSGATE	NETFLIX	PVH	
Current Stock Price	$30.27	$472.29	$106.60	INR 105.5
Growth Pattern	Mature	Growth	Maturity	Mature
Type of Analysis	FCFF	FCFF	FCFF	FCFF
Est value of the firm	$13,343	$13,946	$13,215	INR 4053.38
Est Value of equity	$11,955	$13,992	$7,915	INR 3907.1
Est value of equity per share	$8.22	$231.28	$95.91	INR 6.84
Compared to market	Overvalued	Overvalued	Overvalued	Significantly overvalued
Primary factors of valuation	Leverage	Growth	Leverage	Growth and operating margins
How would you change the firm to increase value?	Decrease Debt/Capital ratio, consider having smaller capital leases	Increase debt ratio to optimal level by borrowing debt. Keep investing in good projects and buying back shares.	Increase debt ratio closer to optimal and invest in better projects. Consider investments in more core apparel categories to reduce trend-driven earnings volatility.	Increase revenue growth rate and EBIT margin, there are clearly operational failings dragging this business. Otherwise, the business should diversify into industries that do not carry such high capital expenditures and investments, but return higher margins than the hotels.