



# FUNDAMENTAL FINANCIAL ANALYSIS

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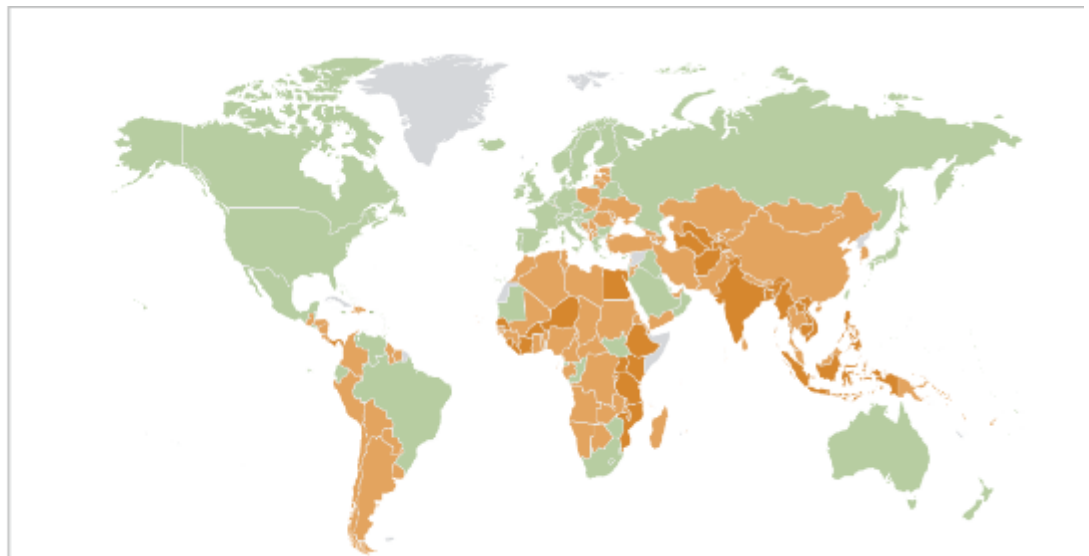
# Project Overview



- Economic Analysis
  - International
  - National
- Capital Market Analysis
- Sector Analysis
- Industry Analysis
- Company Analysis (Apple Hospitality REIT)
  - Management
  - Balance & Income Analysis
  - Qualitative Analysis
  - Ratio Analysis
  - Final Evaluation

# Economic Analysis: International

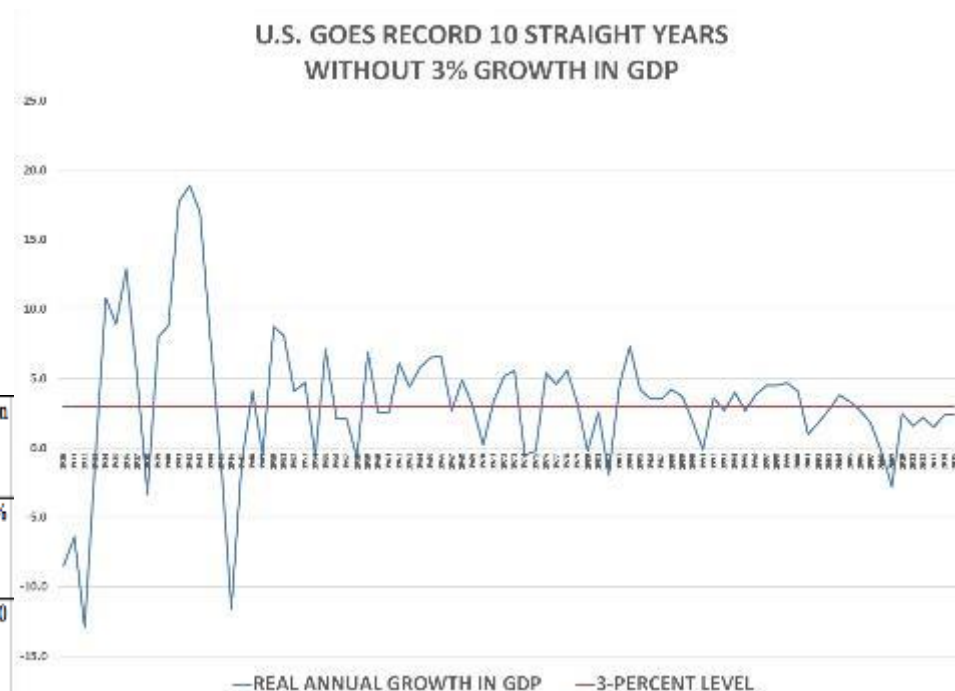
- Global economic growth is at 2.2 percent in 2016 and projects at 2.6 percent in 2017
- Asia and Africa are currently experiencing the most GDP growth across the world.



# Economic Analysis: National Level

- Stagnant economic growth over the last 5 years
- Have not had 3% annual GDP growth since 2005-2006
- In need of economic boost

|                                                        |                 |                 |                 |                 |                 |
|--------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| GDP at current prices (market prices)<br>(million \$)  | \$14.9 trillion | \$15.3 trillion | \$15.5 trillion | \$15.8 trillion | \$16.2 trillion |
| GDP growth<br>(change compared with the previous year) | 1.36%           | 2.68%           | 1.30%           | 1.94%           | 2.53%           |
| GDP per capita                                         | \$49,800        | \$51,400        | \$52,700        | \$54,400        | \$55,800        |



# Economic Analysis: International/National

- The 2016 Presidential Election result caused worldwide uncertainty about the future of the United States
- Affects the International Economy
  - Foreign Investors pulling money out of US Markets
- Affects the National Economy
  - Uncertainty in the future of our country hurts the US Markets



# Capital Market Analysis

- **Stock Market:**

- Still recovering from 2008 crash
- Showing signs of growth
- Uncertainty with latest Election

- **Bonds Market:**

- Steady growth over last 5 years
- Still seen as a “safe” market for the long-term

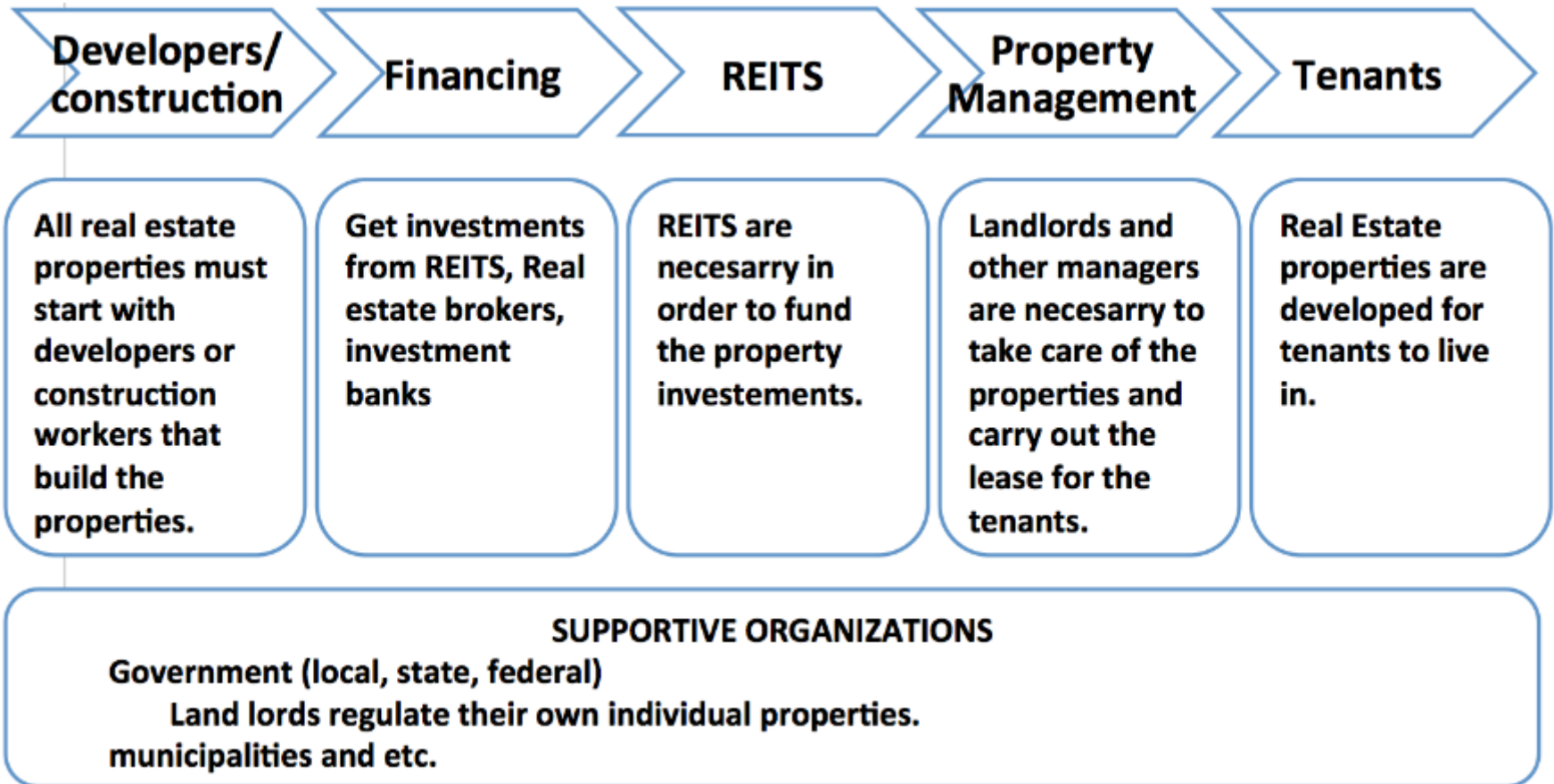


<http://data.worldbank.org/indicator/CM.MKT.TRAD.GD.ZS?end=2015&locations=US&start=2011&view=chart>

|                           |                  |                  |                  |                  |                  |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| Value for the bond market | \$35,706 billion | \$36,604 billion | \$37,745 billion | \$39,016 billion | \$39,996 billion |
|---------------------------|------------------|------------------|------------------|------------------|------------------|

# Sector Analysis

## Value Chain Analysis:



# Industry Analysis: Real Estate

- Real Estate Industry showing steady growth
- Higher GDP growth rate than the U.S. & the World GDP



<https://www.entrepreneur.com/topic/real-estate>

|                                                                                     |                 |                 |                 |                 |
|-------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Degree of industry maturation relative to GNP growth<br><b>Real Estate Industry</b> | \$2,014 Billion | \$2,086 Billion | \$2,145 Billion | \$2,247 Billion |
| Industry growth rates                                                               | 3.50%           | 3.57%           | 2.83%           | 4.76%           |

# Company Analysis:



APPLE HOSPITALITY REIT

- Publicly traded real estate investment trust that owns one of the largest portfolios of upscale, select service hotels in the United States
  - Founded in November of 2007
  - Locations in urban, high-end suburban and developing markets
  - Locations spread across 33 different states.
- The Company's portfolio consists of 236 hotels across the Hilton and Marriott families of brands.



# Business Strategy Analysis

- **Diversification:** Apple Hospitality REIT believes in their strength of broad geographic diversification.
  - Located in a variety of urban, high-end suburban and developing markets which help drive strong, consistent performance
- **Differentiation:** Specialize by leveraging a fully-integrated investment platform and highly analytical approach to portfolio management



# Management



Glade Knight  
Executive Chairman



Kristian Gathright  
V.P. & COO



Justin G. Knight  
CEO



Bryan Peery  
V.P. & CFO



David Buckley  
Chief Legal Counsel



Nelson Knight  
Chief Investment Officer

# Management



- Number of Employees
  - 2011 & 2012 operated by 3<sup>rd</sup> party management
  - 2013 – 52 Employees
  - 2014 – 51 Employees
  - 2015 – 55 Employees
- Insider trading is nonexistent
- Not a lot of information offered on:
  - Productive capacity of the company
  - Main Shareholders
  - Development Prospects

# Company Life Cycle & Long-Term Outlook

- **Life Cycle of the Company:**

- Apple Hospitality REIT underwent major internal growth in 2014 before becoming publically traded in 2015.
  - Expanded from 89 to 191 hotels under their management
- Will continue to look for more growth down the road
  - Still a very young company

- **Long-Term Outlook:**

- Positive outlook for the company as a whole.
- Still a lot of growth and room for development within the company



# Simple Balance Sheet



- Assets:

- 2011: \$1,432,285,000
- 2012: \$1,411,152,000
- 2013: \$1,388,673,000
- 2014: \$3,378,888,000
- 2015: \$3,514,251,000

- Liabilities:

- 2011: \$137,377,000
- 2012: \$179,884,000
- 2013: \$179,470,000
- 2014: \$762,181,000
- 2015: \$1,075,717,000

- Capital:

- 2011: \$1,807,175,000
- 2012: \$1,805,335,000
- 2013: \$1,807,377,000
- 2014: \$3,737,328,000
- 2015: \$3,500,584,000

# Simple Income Statement



- Revenues:

- 2011: \$320,500,000
- 2012: \$365,586,000
- 2013: \$387,991,000
- 2014: \$803,896,000
- 2015: \$898,314,000

- Costs:

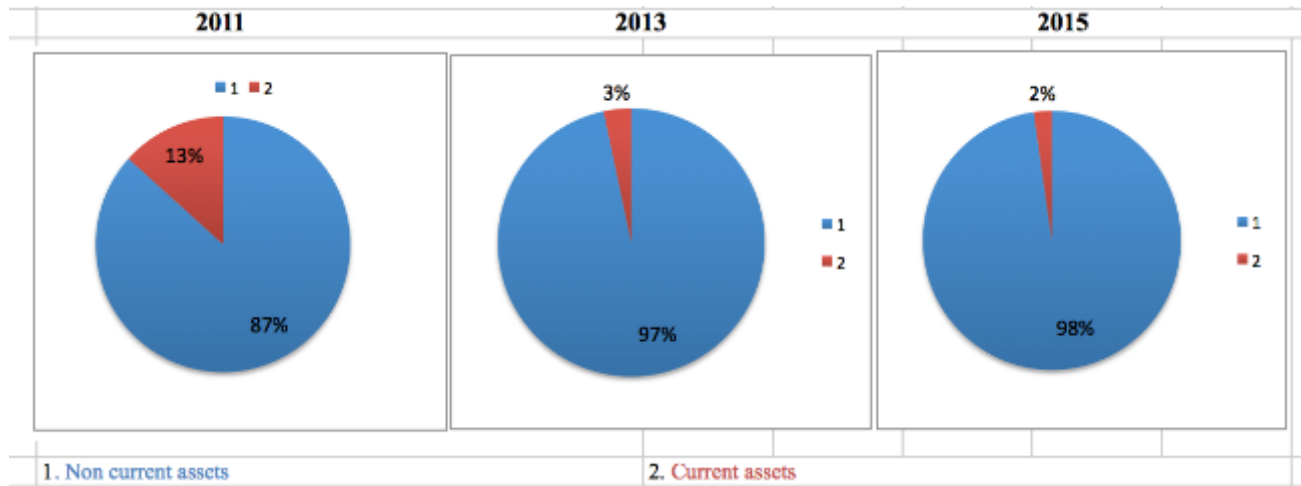
- 2011: \$265,975,000
- 2012: \$288,911,000
- 2013: \$305,247,000
- 2014: \$771,571,000
- 2015: \$762,282,000

- Net Income:

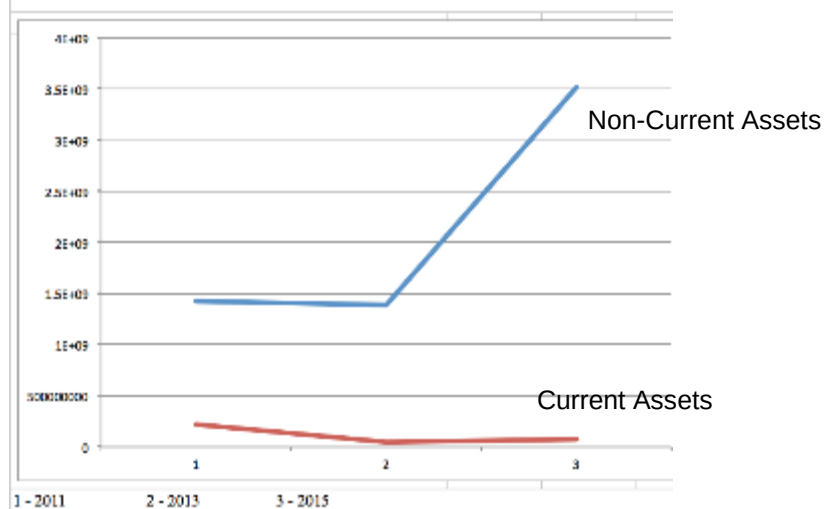
- 2011: \$69,988,000
- 2012: \$75,476,000
- 2013: \$115,222,000
- 2014: \$6,833,000
- 2015: \$117,288,000

# Balance Sheet Comparative Analysis

- Structure of Assets:

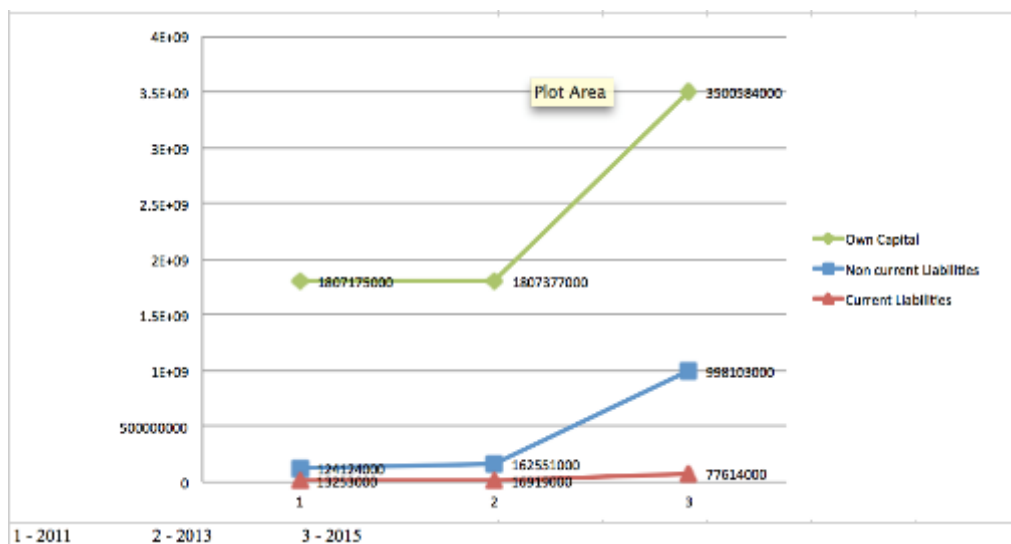
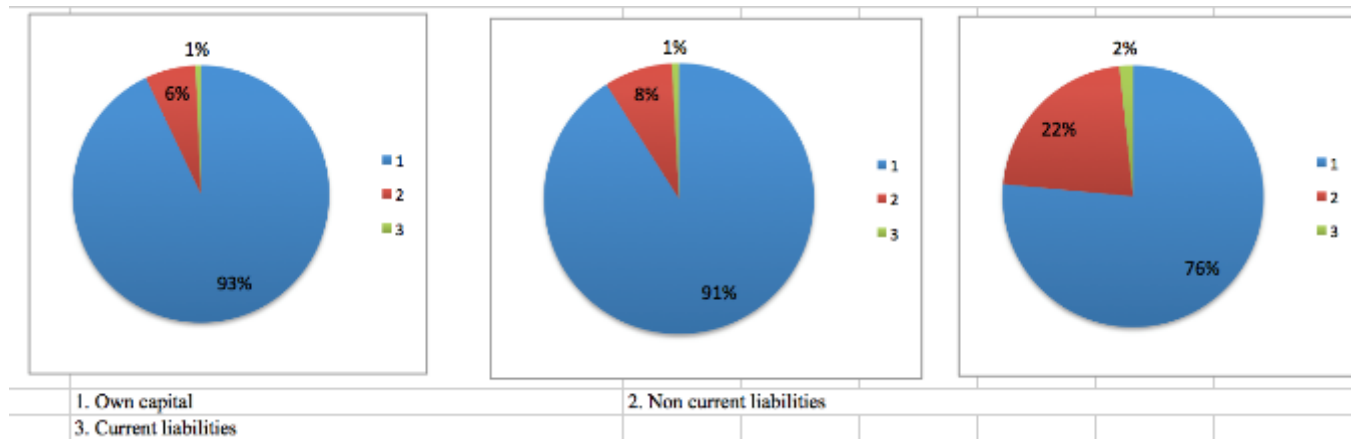


Increase or decrease trends of current and noncurrent assets



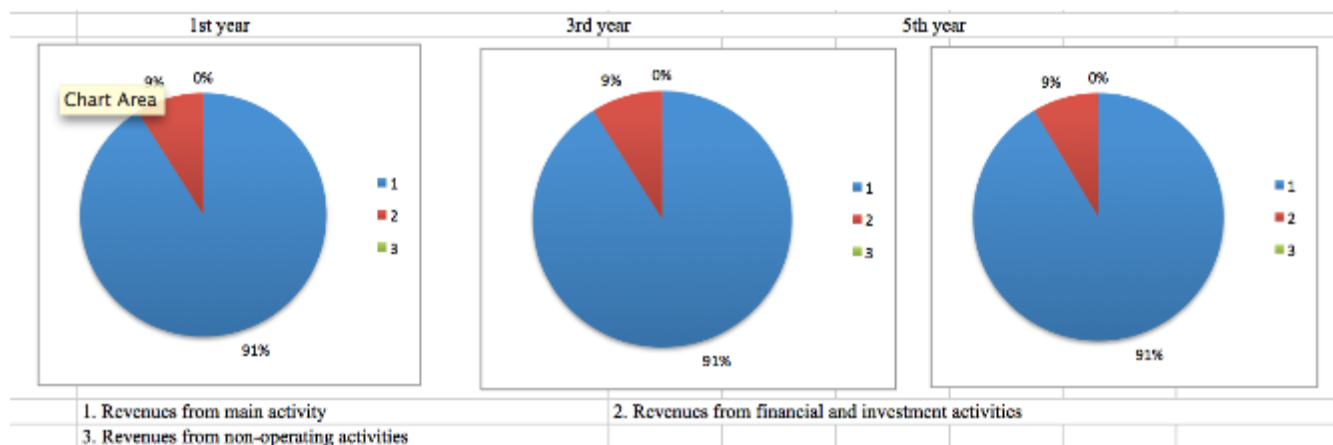
# Balance Sheet Comparative Analysis

- Structure of Liabilities:

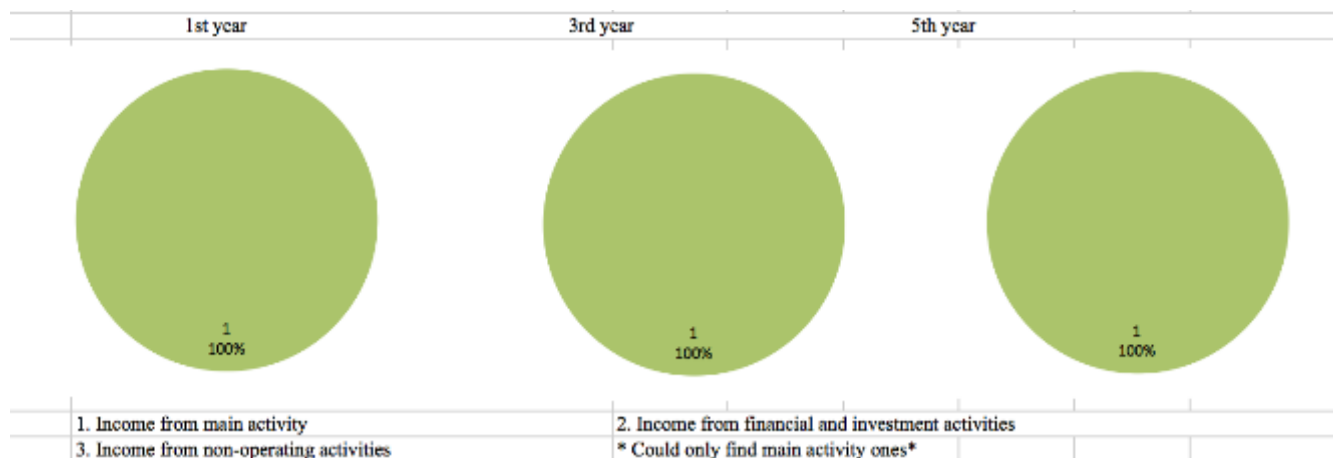


# Income Statement Comparative Analysis

- Structure of Revenues:

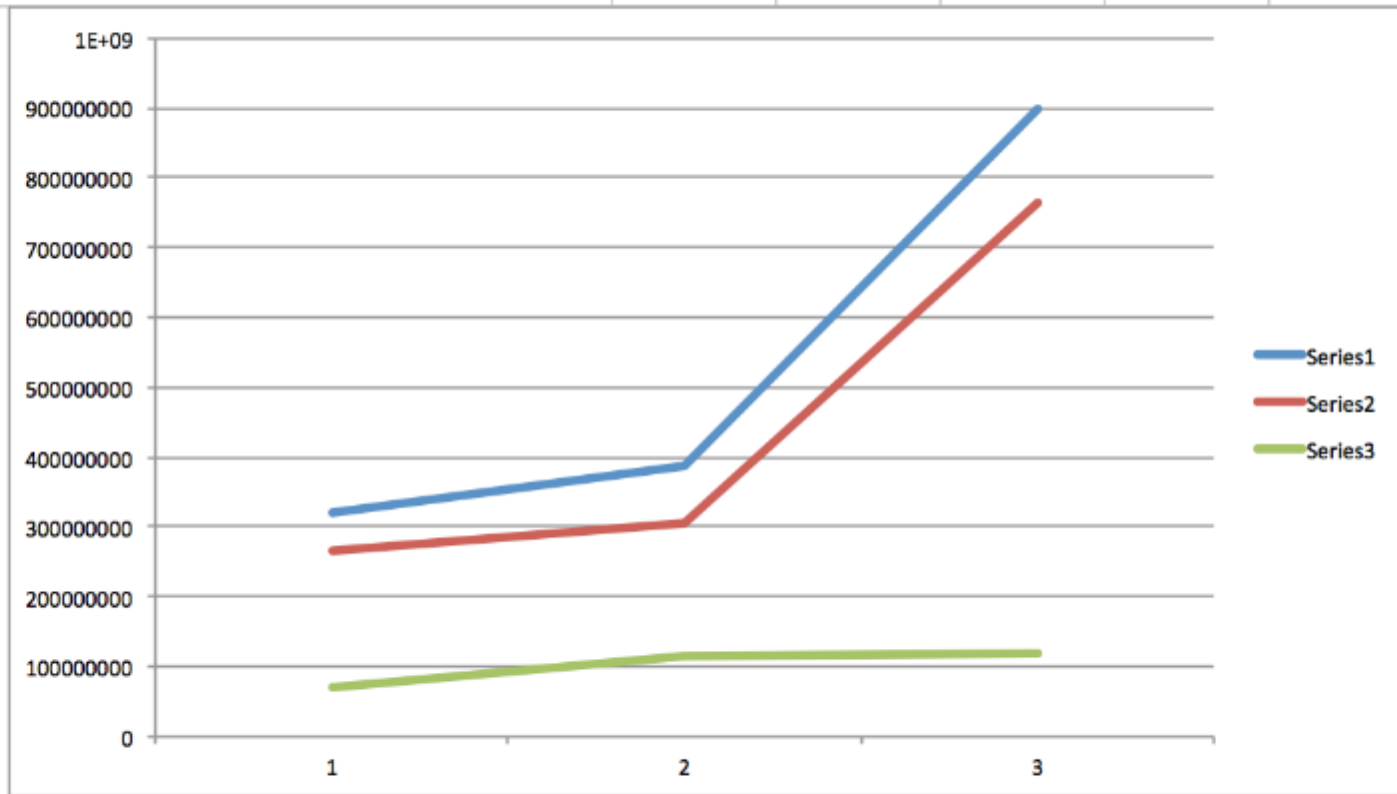


- Structure of Costs/Income:



# Income Statement Comparative Analysis

**Increase or decrease trends of revenues, costs and incomes (profitability trends)**



1 - 1st year

2 - 3rd year

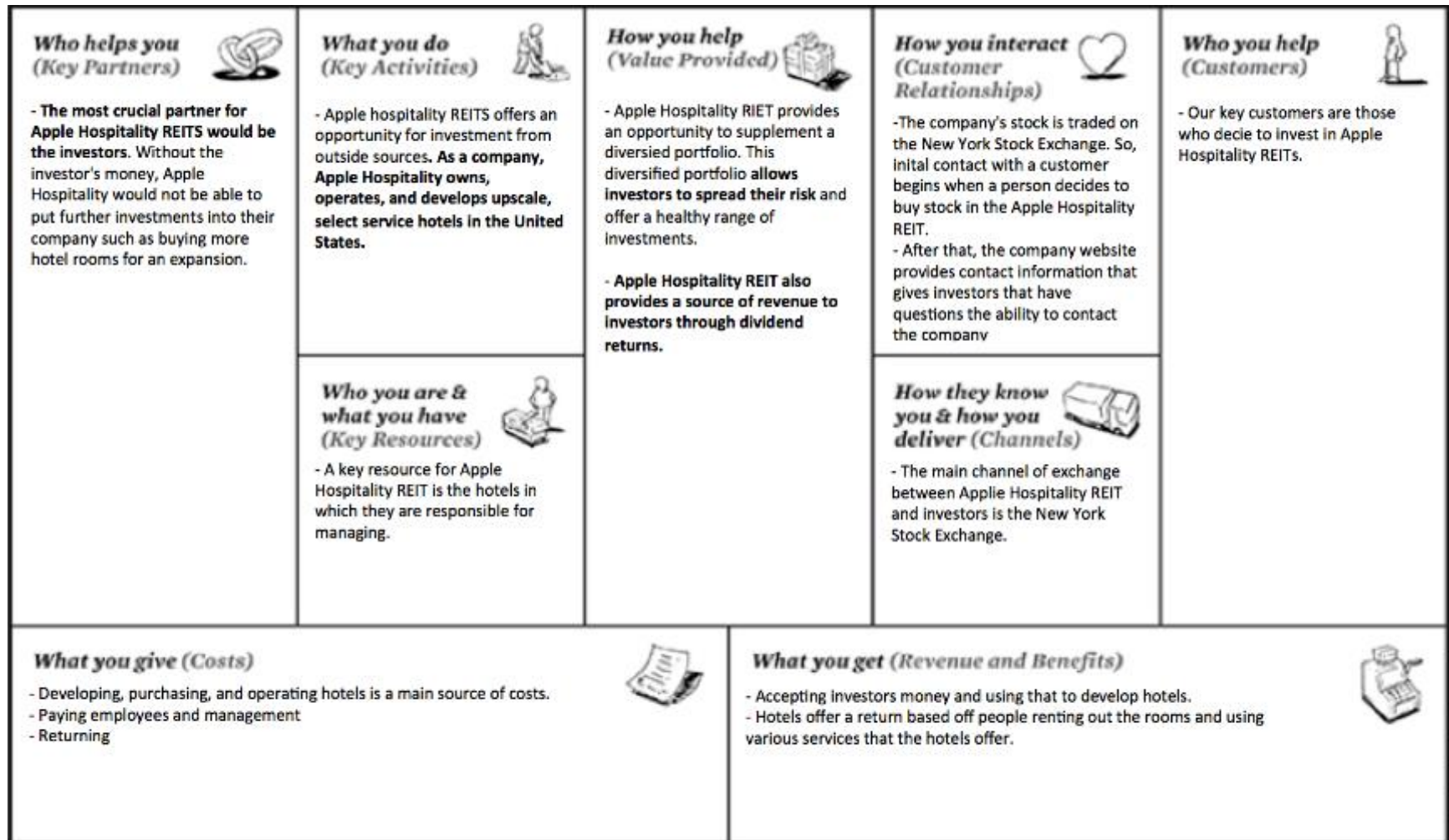
3 - 5th year

Series 1 - Revenues

Series 2 - Costs

Series 3 - Net income

# Business Model Canvas



# Ratio Analysis: Credit & Profitability Ratios



- Current Ratio: (Current Assets / Current Liabilities)
  - 2011: 16.62
  - 2012: 4.74
  - 2013: 2.82
  - 2014: 5.13
  - 2015: 1.04
- Earning Margin: ( Net Income + Interest + Tax – Adjusted Interest / Sales )
  - 2011: 0.22
  - 2012: 0.21
  - 2013: 0.30
  - 2014: 0.02
  - 2015: 0.13

# Ratio Analysis: Price and Payout Ratios

- Earning Yield: (Earnings per share / Price per share)
  - 2015: \$0.65
    - *Note: There is only data for 2015 because that is when Apple Hospitality REIT became publically traded*
- Payout Ratio:
  - 2011: 0.60
  - 2012: 0.60
  - 2013: 0.60
  - 2014: 0.60
  - 2015: 0.60



# Ratio Analysis: Growth and Stability Ratios

- Growth in Sales: (Relative to previous year)
  - 2011: 1.00
  - 2012: 1.14
  - 2013: 1.07
  - 2014: 2.08
  - 2015: 1.12
- Stability of Revenues (Year's revenue / 5 yr. average)
  - 2011: 0.58
  - 2012: 0.66
  - 2013: 0.70
  - 2014: 1.45
  - 2015: 1.62



# Final Evaluation

- 2014 Expansion set the company back temporarily for profitability, but set up great future returns with growth.
- Steady overall company growth with constant profitability despite stagnant national economy is a very positive sign
- Overall outlook of the company looks great
  - Better for the long-term investor the short-term investor

