

Hotel industry: navigating the impact of COVID-19

Surviving, adapting and preparing for the new normal

2020





Introduction

The global travel and tourism industry was estimated to be worth over \$700 billion in 2020, which has now been reforecast to \$447 billion as a result of the coronavirus pandemic. The hotel industry is dealing with an unprecedented crisis due to the disruption caused by the global COVID-19 pandemic. With hotels shut or operating at severely reduced capacity and with customers in lockdown, we look at the steps businesses can take to not only survive but put themselves in the best position for reopening.

From liquidity to debt and restructuring, we address the diverse and complex challenges hotel owners and operators face. In this report we consider the implications for employers and how financial planning for the medium and long term will be affected.

We will cover:



Liquidity



Employment



Debt and restructuring



Financial planning and reporting



Preparing for re-opening



What Grant Thornton is doing to help hoteliers

The challenges posed by COVID-19

The global disruption resulting from the COVID-19 pandemic is unprecedented. Previously, localised events such as hurricanes have led to long-term closures. Now both global and regional chains, as well as independent operators, are facing severe cash flow pressures. The first half of 2020 saw a widespread drop off in occupancy rates around the world.

The challenges created by COVID-19 impact almost every part of a hotel's operations, from room occupancy levels and staffing plans, to food and beverage provisioning. The pandemic has the potential to have far-reaching effects on the industry, long past the lifting of travel restrictions and regional lockdowns. Your priorities will depend on the size and structure of your business, as well as your current financial position and long-term strategy.

Liquidity

The immediate challenge for hotel owners and operators has been cash flow management and forecasting. Businesses that were well capitalised with healthy balance sheets have a distinct advantage when it comes to withstanding a sharp drop in revenue, and a potentially longer-term period of depressed demand. For hotel managers and owners, the focus will be on increasing liquidity and reducing cash requirements. This will necessitate a thorough examination of all pre-COVID expenditure.

There are a number of factors that make cash flow forecasting difficult in the current climate. Firstly, what will happen once lockdown and travel restrictions are lifted is still unclear. We may have a period of muted demand as cautious consumers stay away, and the continuation of social distancing measures, requiring reduced room occupancy and increased cleaning costs could significantly impact revenue and operating costs. Business occupancy could lag behind leisure occupancy as companies decide to continue to limit travel and conduct meetings virtually. Secondly, many businesses across the

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sector are currently utilising government support to pay wages and fixed costs. With the situation evolving quickly, it is not certain how long this assistance will be available and at what scale.

Employment

Many hotel operators have been able to scale down their labour costs significantly through reduced hours. The boost this provided to liquidity has been hugely beneficial to large parts of the industry, but also creates a number of potential issues. We are working with owners and operators to create strategies for reopening, by looking at their ROI and determining what staff levels they need to retain to operate profitably.

With fewer staff in all parts of the business, internal control considerations need to be a priority for management teams. The hierarchy of responsibility may be different, but it is critical that internal procedures for approval and risk management are still effective. Evidence documenting approvals may look different to those pre-COVID due to virtual conversations, and electronic reviews as a result of increasing levels of homeworking.

Debt and restructuring

With revenue and resulting cash flow diminished for both owners and operators, it is important to quickly identify those items where available funds may not be sufficient to meet obligations. For instance, entering into early and transparent negotiations may be necessary to find constructive solutions for servicing debt obligations which may be due, or restructuring other costs which may be committed at levels no longer commensurate with the future operating levels of the business. Many lenders and financiers are accepting delays in payment, and may be open to a further renegotiation of terms.

We expect that a large number of hotel owners may be looking to restructure their debts, meaning that private equity owners and larger operators with significant cash reserves may begin looking to make acquisitions. Companies looking to restructure will need to be able to demonstrate the viability of their plan to internal and external stakeholders and show that it is the best option to ensure the business is able to continue operating once restrictions are lifted. Hotel bars and restaurants need to be considered carefully, as these could be impacted significantly for a longer period of time by ongoing social distancing measures.



Financial planning and reporting

For most of the sector, financial reporting and planning for 2020 is going to differ substantially from previous years. Governments all over the world have implemented a range of measures relating to financial assistance and temporary tax relief. The dynamic nature of the pandemic means that governments are adapting their strategies regularly, so it is important that hotel owners and operators are aware of this support and taking full advantage of the assistance available. Not only will COVID-19 lead to asset impairment considerations that will need to be assessed for reporting and covenant purposes, but companies will also need to assess how the pandemic and government support will impact going concern considerations associated with future cash flows and earnings.

Preparing for reopening

While survival is the overriding concern of many in the hotel industry, it is also important to prepare for the medium and long-term. Once travel restrictions and internal lockdowns begin to be lifted, hotels could still be required to operate at reduced occupancy due to social distancing. This reduced revenue could be further impacted by increased costs relating to cleaning and other activities. Using ROI to determine exactly how many rooms are needed to remain in operation should underpin any strategy.

Across many markets, hotels are expected to implement updated health and safety procedures, especially with regards to cleaning processes and techniques. Making this revised strategy known as early as possible can help smooth the transition once the doors are reopened; this communication will be particularly important with regards to furloughed staff. Some operators, particularly in the business segment, may choose to bring forward the introduction of digital and remote services such as mobile check-in. Hotel brands, however, may feel that these solutions negatively impact the kind of customer experiences they aim to create.

COVID-19 has forced businesses in all industries to adapt their working practices, with home working and video conferences becoming increasingly important. It remains to be seen whether companies continue to use these practices to lower costs after travel restrictions are lifted. The conference market could be affected over the medium-term, leading to a slower recovery of the business market than leisure market. The low-cost travel market could be affected by a rise in airline prices or the need to reduce occupancy rates for a sustained period of time. Operators and owners need to plan for these potential variances in demand as the world begins to return to pre-crisis levels of activity.

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Critical considerations for your response

The value chain of the hotel industry is highly interconnected with other industry groups as well as domestic and global economic and social activity. Many of the forces impacting the hotel industry are driven by factors outside of the owner, franchisor or operator's control; this complexity has been highlighted by the impact of COVID-19.

Current market conditions are driving clear liquidity and operational challenges, but can also provide opportunities to those with strong balance sheets and access to supportive lenders and investors. The interconnectivity of the hotel industry drives the need for well thought-through, integrated solutions that critically address the needs of multiple stakeholders.

We consider the questions on the next page as some of the more important areas to focus on for the industry when looking to assess, protect and restore value – some will be more relevant to your business than others. Grant Thornton can help you to define the next steps in your response.

Key questions to consider

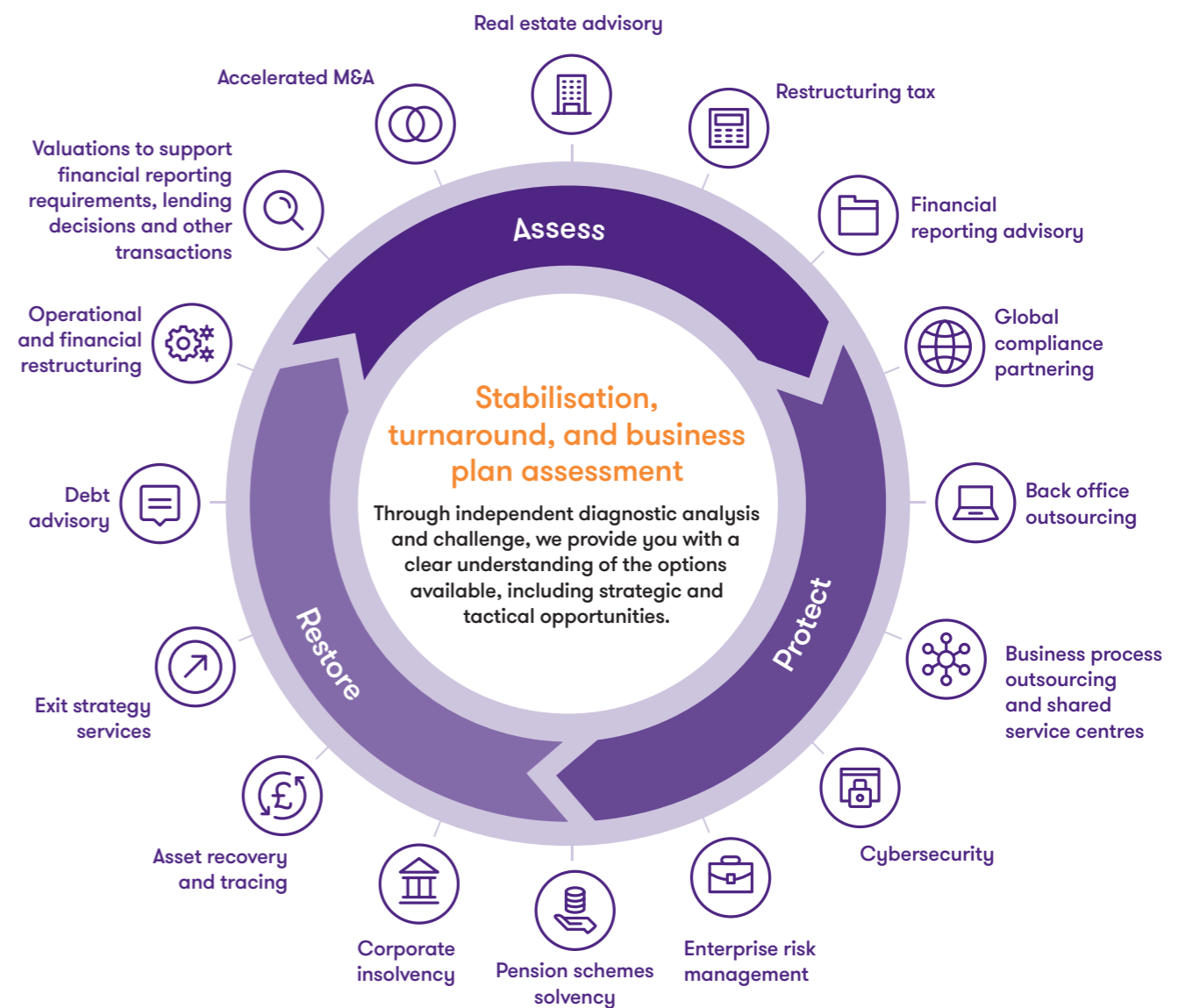




How Grant Thornton's solutions can help you

Our approach in supporting you to assess, protect and restore value in your business starts with helping you to regain control by stabilising the business, whilst developing a robust and realistic turnaround plan. We draw upon our deep expertise across a range of different areas, customised to your specific needs.

Successful turnarounds require the development of a credible plan that has been stress tested against various scenarios, along with a transparent communication strategy that meets the needs of all stakeholders. Building trust, and not breaking promises, will be critical if the plan is to be realised.



Stabilisation, turnaround, and business plan assessment

In the early stages of a turnaround the right support is necessary to create financial stability, assess cashflow and identify opportunities to improve short-term liquidity.

Through independent diagnostic analysis and challenge, we provide stakeholders with a clear understanding of the options available, including strategic and tactical opportunities.

This crucial activity provides comfort and support to management teams and can realise the credibility of the plan as part of the assessment process of financial stakeholders.

Our solutions

Operational and financial restructuring

Our multi-disciplinary operational and financial restructuring specialists provide support to realise significant business process improvement, implement new business strategies, divest noncore businesses and design new capital structures aligned to the dynamics of the business. Our team also has significant experience in supporting renegotiations of lease/rent terms and in helping businesses access government support which may be available.

Real estate advisory

Our real estate advisory team can help you create a flexible real estate strategy and plan, allowing your business to adapt when it needs to. With the foundation, strategy and plan in place, we will help you optimise your business' efficiency and productivity. Capital raised as a result and in addition to strategic disposals can be re-invested elsewhere and support your business growth, find the right space, in the right location provides a foundation to promote success through your business' operations, people, technology and access to market, enabling you to focus on your business goals.

Debt advisory

We provide specialist advice on the raising and refinancing of debt. Through our deep understanding of the funding landscape and detailed knowledge of the credit process, we devise tailored funding solutions as part of a sustainable capital structure in line with the strategic ambition of our clients.

Exit strategy services

We apply a tailored methodology and fully project-manage and implement the sale or closure of underperforming or non-core corporate entities at maximum value.

Valuations to support asset-backed lending decisions, restructuring and transactions

We provide valuations to support asset-backed financing, including valuing shares and intangible assets, and provide periodic valuations of assets to confirm that the terms of the loan agreement continue to be met. For mergers, acquisitions, restructuring and proposed financial structures, we provide an independent view on value delivering robust advice within the constraints placed by the deal deadlines.

Accelerated M&A

We provide advice and manage transactions associated with the acquisition or disposal of distressed assets or businesses, frequently to short timescales.

Asset recovery and tracing

Asset recovery and tracing normally form part of formal insolvency processes such as liquidations, or are carried out in support of ongoing litigation or fraud investigations. We use specialised approaches to identify and recover misappropriated assets, including those held in offshore trusts, to provide cost-effective value recovery.

Corporate insolvency

Where a business cannot be saved or where a formal insolvency process is required to affect a restructuring, we provide advice and support to distressed companies, their creditors and other stakeholders in order to protect assets and maximise recoveries. In some situations, we take on the role of Chief Restructuring Officer. Our experience extends to protecting the company from creditor action whilst a financial restructuring is put in place.

Pension schemes solvency

In many parts of the world, we offer a specialist capability to advise corporates and trustees on the solvency of pension schemes.

Enterprise risk management

Our enterprise risk management (ERM) specialists help organisations implement the leading approach to managing and optimising risk. We are able to tailor the approach to our client's individual challenge and create bespoke strategies that work, enabling them to strategically identify, analyse and monitor potential risk to their organisation.

Cybersecurity

Our cybersecurity solutions are designed for clients seeking to address a variety of complex security requirements. We can help organisations assess their security vulnerability, establish or improve their IT security processes and remediate breaches or compliance failures.

Business Process Outsourcing and Shared Service Centres

Increasingly, large organisations are looking to fully outsource their transactional end-to-end finance and accounting processes, leaving them free to focus their finance resources on important strategic business value. We typically commit to reduce costs and/or improve productivity and quality. We also advise organisations on optimising finance and accounting processes, and can take our recommendations through to implementation, whether this involves building a full-scale Business Process Outsourced delivery capability or setting up a Shared Services Centre.

Back office outsourcing

We provide outsourced accounting, payroll, human resource and tax services to domestic SMEs or local branches of international organisations. Our services are managed centrally to deliver a consistent experience for each of our clients, however widespread their operations. We exploit innovative digital technology to give our clients access to their data round the clock; the same technology gives our large corporate clients access to new and cost-effective offshore platforms. Where our clients face complex tax and payroll challenges, our tax, global mobility and wealth management specialists provide expert, value-adding advice.

Global compliance partnering

Our global compliance partnering solution delivers all local statutory financial reporting, centralised statutory audits, tax compliance (corporate, sales and payroll), payroll administration and local country filings for multinational organisations through a single point of contact. We are the leading adviser to dynamic organisations delivering a solution that improves reporting efficiency and enhances risk management. By providing full transparency, real-time monitoring and highlighting upcoming deadlines, we enable local and central management teams to ensure full compliance at all times.

Financial reporting advisory

We provide clear and practical solutions to address complex accounting and financial reporting issues. We support businesses in navigating the accounting and reporting of government stimulus packages. We're also able to help navigate the accounting and reporting of complex areas including leases, impairment and going concern.

Restructuring tax

Our restructuring tax teams specialise in providing tax advice in all aspects of restructuring scenarios. In particular, this includes advising on the tax aspects of:

- independent business reviews, options reviews and contingency planning
- business restructuring, eg debt restructuring
- mergers and acquisitions
- disposals of trade and assets or wind down of businesses
- corporate insolvencies
- fraud investigations.

Saudi Arabia has reinforced its commitment to the transformation of its tourism industry with the formation of a 'Tourism Development Fund' with SR15bn (\$4bn) of initial capital, which will offer equity and debt investment vehicles for local tourism businesses.

The fund's launch marks the first phase of the National Tourism Strategy, which has aimed to target 38 tourism sites in seven locations by 2022.

Furthermore, domestic travel will continue to contribute to the industry, albeit gradually.

The leisure & hospitality industry across Saudi Arabia is encouraged to consider its current position, whilst considering the transformation required in order to operate and grow in a new era.

Imad Adileh

Principal

Helping your business respond to COVID-19

We are immersed in the hotel industry and our professionals are uniquely positioned to assist you in all aspects of the creation and execution of your turnaround plan.

1

You will be working with people who are part of your industry, have a track record of achieving success for their clients, and we will bring that experience to your challenges

2

We will take a holistic view of the challenges you face and deliver targeted solutions throughout the various elements of hotel operations, ownership and funding

3

We will work closely with you to implement performance and working capital improvements and drive effective restructuring strategies. These include providing independent critique of refinancing proposals and acting as a respected bridge between lenders and the senior management team

4

Our experience of effective divestment/investment strategies will help you identify and maximise opportunities for value creation or protection and to improve liquidity availability if necessary

5

Regardless of the complexity of your group structures, or the international footprint, we have a global network of firms and market-leading teams in all the key offshore financial centres, to be able to advise on all leading practices

6

We are at the heart of the development of cross-border restructuring legislation, giving our clients access to leading-edge and best practice restructuring solutions

“Dynamic organisations can achieve great things with the right support. You need advisers that deeply understand your business, your industry and your wider agenda for growth. Our capabilities, expertise and culture make us perfectly placed to fill that role.”

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