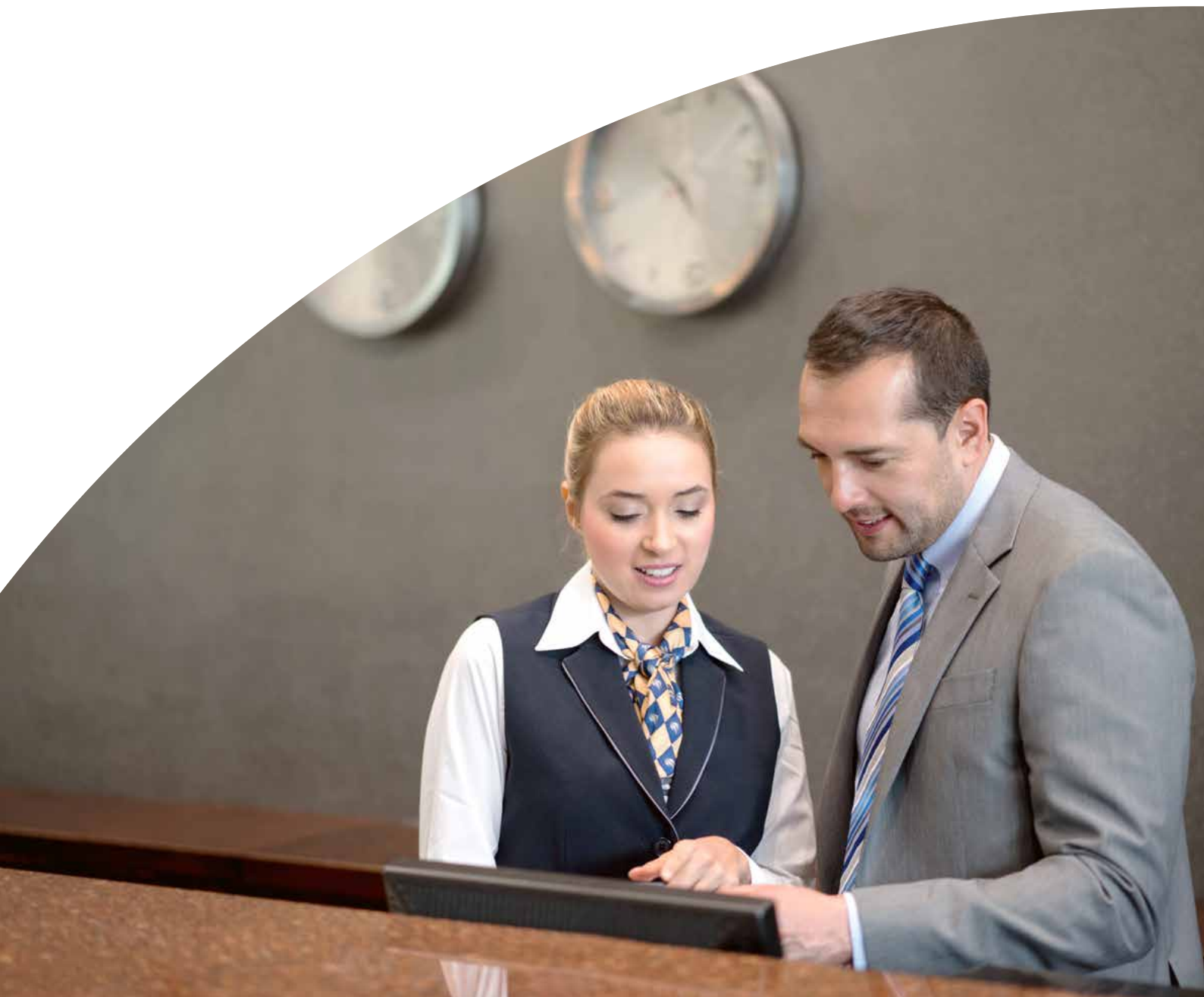
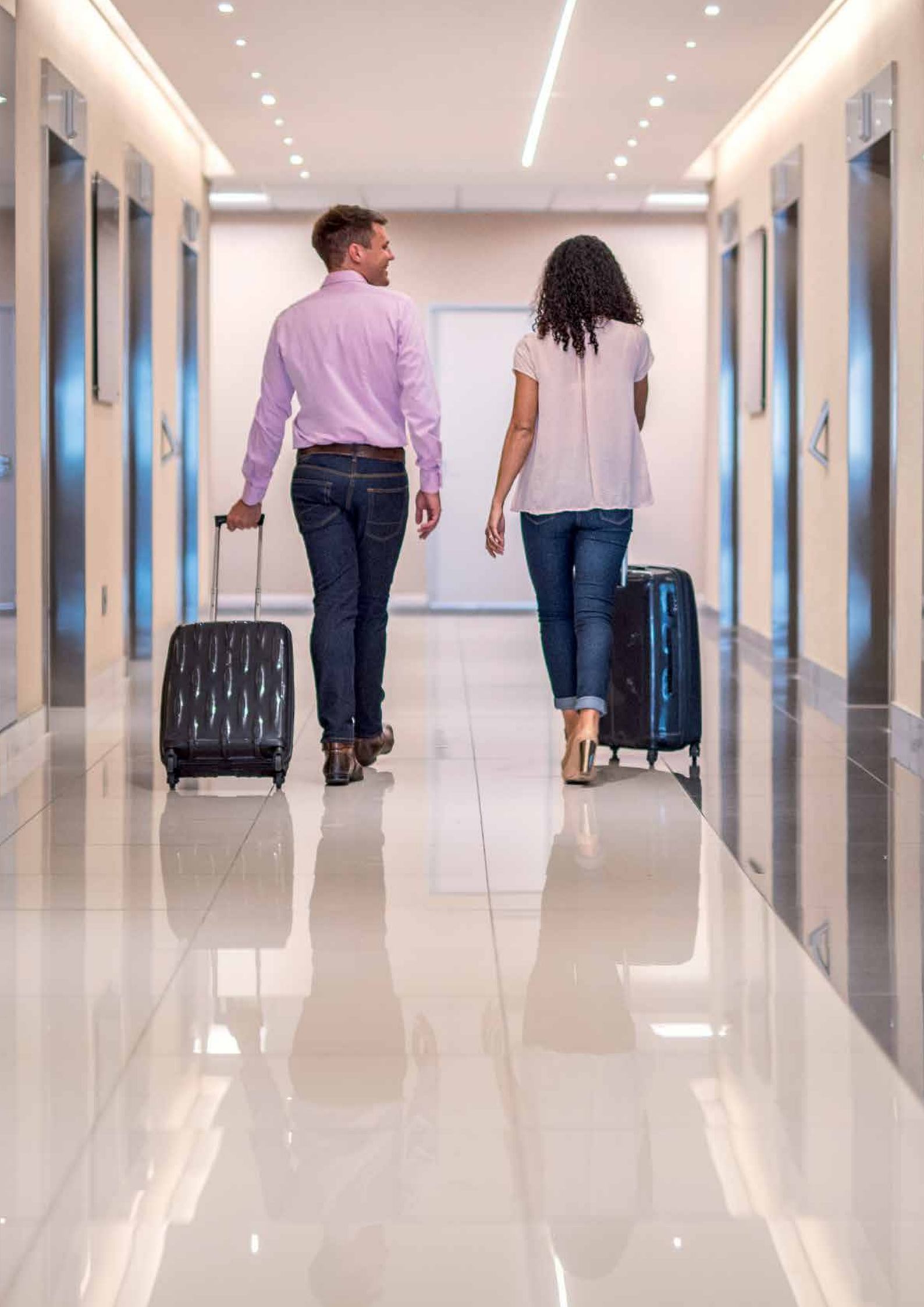


Hotel industry: navigating a post COVID world

Returning to sustainable growth

2021





In this report

The hotel industry saw unprecedented disruption caused by the global COVID-19 pandemic. Significant challenges remain in 2021, with many hotels still dealing with reduced occupancy as a result of travel restrictions, local lockdowns and a huge shift towards remote working.

But optimism is beginning to increase and business leaders can start to focus on building sustainable growth in 2021 and beyond. As leisure and business travellers return, there are significant growth opportunities for the hotel industry.

This report looks at the ways hotel businesses can begin to build sustainable growth in the post-COVID-19 commercial landscape. From liquidity to debt and restructuring, we address the diverse and complex challenges hotel owners and operators face. We also consider the implications for hoteliers and how financial planning for the medium and long term will be affected.

We will cover:



Sustainable growth strategies



Liquidity



People, employment and governance



Debt and restructuring



Financial planning and reporting



Examining contracts and agreements

Challenges and growth opportunities

Previously, localised events such as hurricanes have led to long-term closures in the hotel industry. However, disruption resulting from the COVID-19 pandemic has been unprecedented in its global impact. In 2020, both global and regional chains, as well as independent operators faced severe cash flow pressures. At the end of 2020, the US hotel industry was still reporting record-lows in occupancy and revenue per room, while estimates in the UK expect occupancy at only 55% for most of 2021. The pandemic will have far-reaching effects on the industry, long past the lifting of travel restrictions and regional lockdowns. However, there are opportunities too, and hotel businesses will need to be proactive if they are going to emerge from what could be another challenging year in a stronger position.

Sustainable growth strategies

While survival is the overriding concern of many in the hotel industry, it is also important to prepare for the medium and long-term. As travel restrictions and internal lockdowns begin to be lifted, hotels could still be required to operate at reduced occupancy due to social distancing. There are a number of trends the pandemic is likely to have accelerated. As customers do begin to return they may gravitate towards hotels that use digital technologies to enhance experience and customisation. For instance, this could mean digital check-ins but also in-room tablets and apps that let customers create a more personalised experience.

Also, with domestic holidays likely to take precedence over international ones, sustainable and green tourism could prove popular as well as hotels that feel embedded in their local communities. Customer preferences are changing and hotels may be able to overcome some of the drop in occupancy by offering more experiences.

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Liquidity

Cash flow management and forecasting is an ongoing challenge for hotels. Businesses that were well capitalised with healthy balance sheets have a distinct advantage when it comes to withstanding the drop in revenue, and a potentially longer-term period of depressed demand.

There are a number of factors that make cash flow forecasting difficult in the current climate. For example, the impact on liquidity as lockdown and travel restrictions are lifted is still unclear. We may have a period of muted demand as cautious consumers stay away. The continuation of social distancing measures requiring reduced room occupancy and increased cleaning costs could significantly impact revenue and operating costs. Its likely that business occupancy could lag behind leisure occupancy as companies decide to continue to limit travel and conduct meetings virtually.

People, employment and governance

Many hotel operators have been able to scale down their labour costs significantly through reduced hours, or the use of government support to furlough sections of their staff. The boost this provided to liquidity has been hugely beneficial to large parts of the industry, but also creates a number of potential issues. To create sustainable strategies for 2021 and beyond, owners and operators will need to look at their ROI and determine 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-pandemic due to increasing levels of home working and associated virtual conversations and electronic reviews.

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.



Large numbers of hotel owners may be consider restructuring their debts, meaning that private equity owners and larger operators with significant cash reserves may begin looking to make acquisitions. Companies intending to restructure need to demonstrate the viability of their plan to internal and external stakeholders. They need to show that it is the best option to ensure the business is able to continue operating once restrictions are lifted and that it is in the interests of key stakeholders to support it. Due to ongoing social distancing measures, hotel bars and restaurants could be impacted significantly for a longer period of time and will need to be considered very carefully.

Financial planning and reporting

For most of the industry, financial reporting and planning in 2021 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 take full advantage of the assistance available. Not only is COVID-19 leading to asset impairment considerations that will need to be assessed for reporting and covenant purposes, companies will also need to assess how the pandemic and government support will impact growing concerns associated with future cash flows and earnings.

Examining contracts and agreements

Businesses need to ensure they have considered the wide range of accounting factors that could impact their position throughout 2021. One such area is the accounting treatment for applying changes in loyalty schemes and cancellation policies, which are likely to be impacted with a prolonged period of reduced occupancy and business travel. Management agreements are another priority, specifically those where fees and incentives are calculated as a percentage of total revenues, operating income or gross profit. Long-term contracts with vendors may also include incentives and discounts based on purchase volumes. It may not be feasible to reach these thresholds in the current climate and these agreements may need to be renegotiated.

In fact, it's important to look closely at all business agreements to ensure they meet your needs. Leasing agreements for equipment, property or other items as well as agreements with lenders, vendors and the management company may need to be modified. This could help to create a more favourable position for the rest of 2021, but also make businesses and their various stakeholders more closely aligned on long-term strategy.

Evidence documenting approvals may look different to those pre-pandemic due to increasing levels of home working and associated virtual conversations and electronic reviews.



Critical considerations as you plan for the future

The value chain of the hotel industry is highly interconnected with other industry groups and domestic, regional 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 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.

Advisors from our network of Grant Thornton member firms can help you to define the next steps in your planning. 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.

Key questions to consider

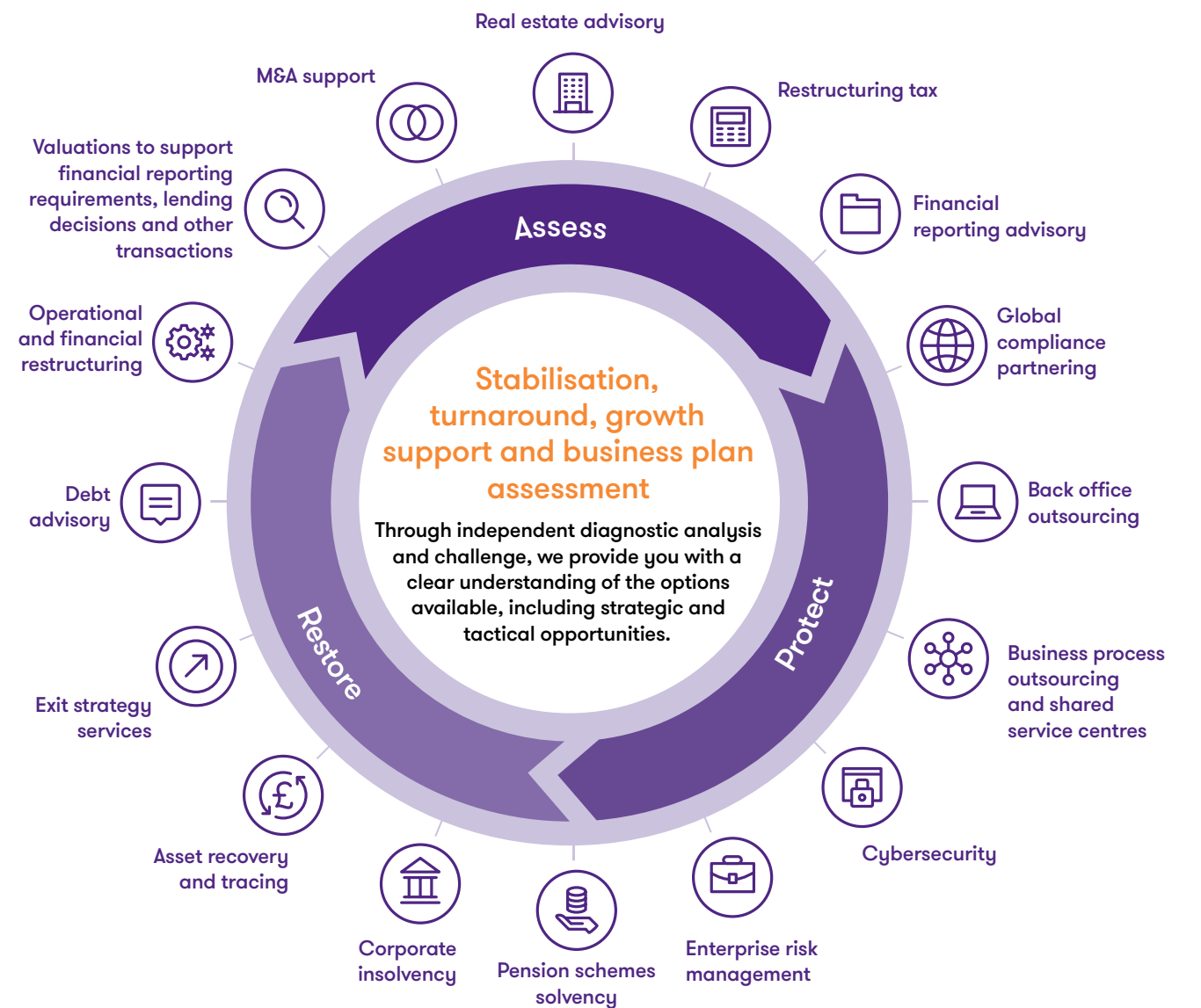




How Grant Thornton's solutions can help you

“Grant Thornton” is a network of member firms around the world. 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, and longer term strategic plans. 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, growth support 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 underpin the credibility of the turnaround and long term strategic plans as part of the assessment process of financial stakeholders.

Grant Thornton member firms regularly work with leadership teams to support the effective delivery of their plans.

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 non-core 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. Finding 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.

M&A support

We provide advice and manage transactions associated with the acquisition or disposal of distressed and non-distressed assets or businesses, frequently to short timescales. Our team helps businesses navigate complex transactions – whether buying or selling, restructuring or providing capital solutions – always with competence, speed and agility. From deal strategy and valuation, to evaluating the financial, IT, tax, commercial and operational issues affecting performance and identifying strategic alternatives, we address concerns, manage risk, support the structuring of the purchase agreement and help our clients seize opportunities.

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.



Credentials

In this section, we share examples of relevant credentials from member firms in the Grant Thornton network.



Multi-lender restructuring

Client Business description: Leading tourism and leisure group involved in all aspects of tourism including, hotel management and IATA agencies.

Engagement description: Grant Thornton was appointed to act as lead financial advisors in relation to the debt restructuring of the Group.

Challenge: The lenders involved in the restructuring held exposures of approximately US\$336 million by way of a significant number of bilateral loans. There were a number of complicating factors that existed at the date of Grant Thornton's appointment or arose during discussions, including: complex and varying debt pricing, security and guarantee arrangements; a lack of agreed inter-creditor and enforcement arrangements; and unstable market conditions.

Solution: An international team was formed by Grant Thornton, comprising our restructuring and industry experts based across Europe to support negotiations and provide local expertise on key matters. Grant Thornton project managed the entire process, with our involvement including the following key work streams:

- Creation of a detailed entity priority model which enabled the lenders to understand fully the waterfall for the application of funds on insolvency, and assess their relative security positions

- An insightful review of the business plan in order to assess its robustness, and key areas of opportunity and risk within Management's forecasts. This included an assessment of debt capacity to help inform the detailed debt restructuring negotiations
- A review of the Group's various tax structuring proposals was undertaken for the benefit of the lenders.

Outcome: Following Grant Thornton's establishment of a restructuring proposal, provision of highly detailed debt restructuring advice and engagement in complex negotiations with the lenders, a consensual restructuring was secured and thousands of jobs preserved. Additionally, all of the significant lenders entered into a modernised restructuring agreement based on Loan Market Association principles and appropriate financial and non-financial covenants for the agreed facility were put in place.

Through this process, lenders were provided with a realistic prospect of achieving a full recovery of their significant exposures and trust and integrity was also restored in the lending environment.



Shared Services Centre

Client Business description: Largest hospitality company in Europe and sixth largest in the world, headquartered in France.

Engagement description: Provision of accounting and analytical reports for 150 hotels from one delivery centre managed by Grant Thornton.

Challenge: Centralising all the accounting activities to provide reliable and consistent analytical reports to the hotels managers and to assist them in the monitoring of their hotels' businesses. Operating at scale to provide substantial savings to the operator. Reducing the deadlines in accordance with the client's Fast Close process.

Solution: Grant Thornton built up a delivery centre with a dedicated team for the whole portfolio of hotels. We provided highly trained people to ensure high expertise and the ability to deliver in short deadlines. We implemented our excellence process framework methodology to deliver the relevant level of quality.

Outcome: Grant Thornton increased the productivity of the team by 25% when centralising all the operations in our delivery centre and delivered the monthly analytical reports within two and a half open days in accordance with our client's request. We also implemented accurate KPIs to monitor monthly the quality of the delivery.



Financial restructuring and asset preservation executed through insolvency process

Client Business description: Large branded hotel chain, headquartered in the UK.

Engagement description: The growth and ambition of a branded national hotel chain was constrained by a debt structure it was unable to service following a prolonged economic downturn.

Challenge: The business was highly leveraged and had a significant pension fund deficit. These obligations made access to additional funds, that were needed to continue to trade, extremely challenging. Options that the management team had explored with its lenders to restructure its debts and secure additional finance had not led to an agreed way forward.

Solution: Grant Thornton initially supported stakeholders in gathering and validating key information which was required for negotiations between lenders, landlords, pension fund trustees and regulators. Grant Thornton were also asked to produce a restructuring plan and provide options which were stress tested against various scenarios.

As part of this restructuring process, Grant Thornton supported management with complex negotiations with landlords which resulted in the consensual handing back of several loss-making leased hotels which did not fit with the core strategy. The restructuring plan also included supporting the management team preparing the business for sale should other options be exhausted.

As it was not possible to align the interests of a diverse body of stakeholders, including the pensions regulator, the business sale option was chosen. In implementing the sale plan, Grant Thornton deployed highly technical skills in pensions advisory, programme management and negotiation to execute the transfer of the business through an insolvency process. This all at a time where the group was under severe cash flow pressures and at considerable risk of losing significant value.

Outcome: Grant Thornton attracted new capital and secured an on-going business. Value in excess of US\$130 million was preserved for the key stakeholders.



Businesses turnaround

Client Business description: Boutique West End hotel in London.

Engagement description: Appointed Receiver by debenture holder to effect a turnaround and sale.

Challenge: This well-known hotel had been partially redeveloped and was partially open however, they had run out of money to complete the redevelopment and the debenture holder had run out of patience. The plan was to complete the refurbishment of the hotel to an agreed budget so that it was a fully functioning hotel and trading profitability in order to maximise the sale value. The debenture holder was owed US\$26m and the hotel was valued at US\$19m-US\$26m, so there was likely to be a shortfall on sale if the hotel's value could not be maximised.

Solution: Grant Thornton structured a business plan that was agreed by all the stakeholders and the debenture holder was prepared to contribute to the finance to complete the refurbishment and reopen the hotel. The debenture holder was initially looking at writing off some of the debt, however the business plan demonstrated that with the right investment and the right management team, the debenture holder would recover all their investments. The redevelopment was completed and the hotel was fully opened and trading profitability for 18 months.

Outcome: The hotel was put on the market and sold for US\$39m within six months. The debenture holder was repaid in full and the shareholders received a return.



Outsourcing and compliance services

Client Business description: French hotelier which owns, operates and manages 85 hotels in eight countries across Europe (mainly in the midscale segment).

Engagement description: A large hospitality company sold a portfolio of hotels to a new franchisee hotel operator which was mainly owned by a respected European investment fund. Grant Thornton provided outsourcing services to perform bookkeeping, financial statements, tax declaration and corporate secretarial services for 61 French hotels and 24 hotels elsewhere in Europe including Austria, Belgium, Germany, Italy, Portugal, the Netherlands and Spain.

Challenge: Being the business partner of the client to assist the hotel managers in the monitoring of their businesses on a day-to-day basis and the corporate finance department in the analysis of consolidated data. Implementing a digital solution to improve the efficiency of the Procure-to-Pay process for the whole portfolio. Dealing with local compliance requirements in every European country in which the client has hotels.

Solution: Grant Thornton built up a delivery centre with a dedicated team for the whole portfolio of hotels. We provided highly trained people with key expertise and the ability to deliver against short deadlines. Grant Thornton implemented our excellence process framework methodology to deliver the relevant level of quality. We set up a coordination team to ensure a smooth collaboration between all involved parties: local Grant Thornton teams in each country, centralised Grant Thornton team in France, corporate head office of the client. We onboarded our consulting team to implement a complete digital solution for the PtoP activities and RPA for transactional activities.

Outcome: We implemented of a full IT solution covering the wide scope of the outsourced activities within six months. We built a strong governance model with all countries involved in our monthly European steering committee. 100% of suppliers' invoices and approval workflows were digitalised. We delivered 100% of the analytical reports within four open days using the same group chart of accounts and accounting principles.

Asset realisation through insolvency

Client Business description: BVI based hotel investment fund investing in the development of hotels, villas and condotels in Vietnam.

Engagement description: The operating business in Vietnam defaulted on loans made by a BVI registered holdco. Grant Thornton were appointed as Receivers to the BVI holdco. This process allowed Grant Thornton to design and implement a restructuring plan which included the realisation of value through the disposal of the overseas investment properties.

Challenge: As Vietnam does not recognise the jurisdiction of foreign courts, Grant Thornton had to overcome the challenge of taking control of the ownership of overseas assets through negotiation and the use of international restructuring skills.

Solution: Grant Thornton BVI successfully persuaded existing Vietnamese management to resign their positions and appointed local Grant Thornton restructuring professionals to take full management control of the business. Grant Thornton were then able to market and sell the business in an orderly way, protecting value and employment whilst maximising realisations from the asset base.

Outcome: All of the outstanding debt was repaid to the BVI investment fund, with the underlying business put under new ownership with a sustainable future.

Risk and Internal Audit services

Client Business description: Publicly traded hotel ownership company.

Engagement description: Grant Thornton provided risk compliance and internal audit services to a large publicly traded lodging company. The relationship we have is rooted in our expertise in the hospitality and lodging industry. Grant Thornton provides consulting on internal control matters at the ownership, operator, and property levels, and our approach is designed to add value to the organisation beyond compliance.

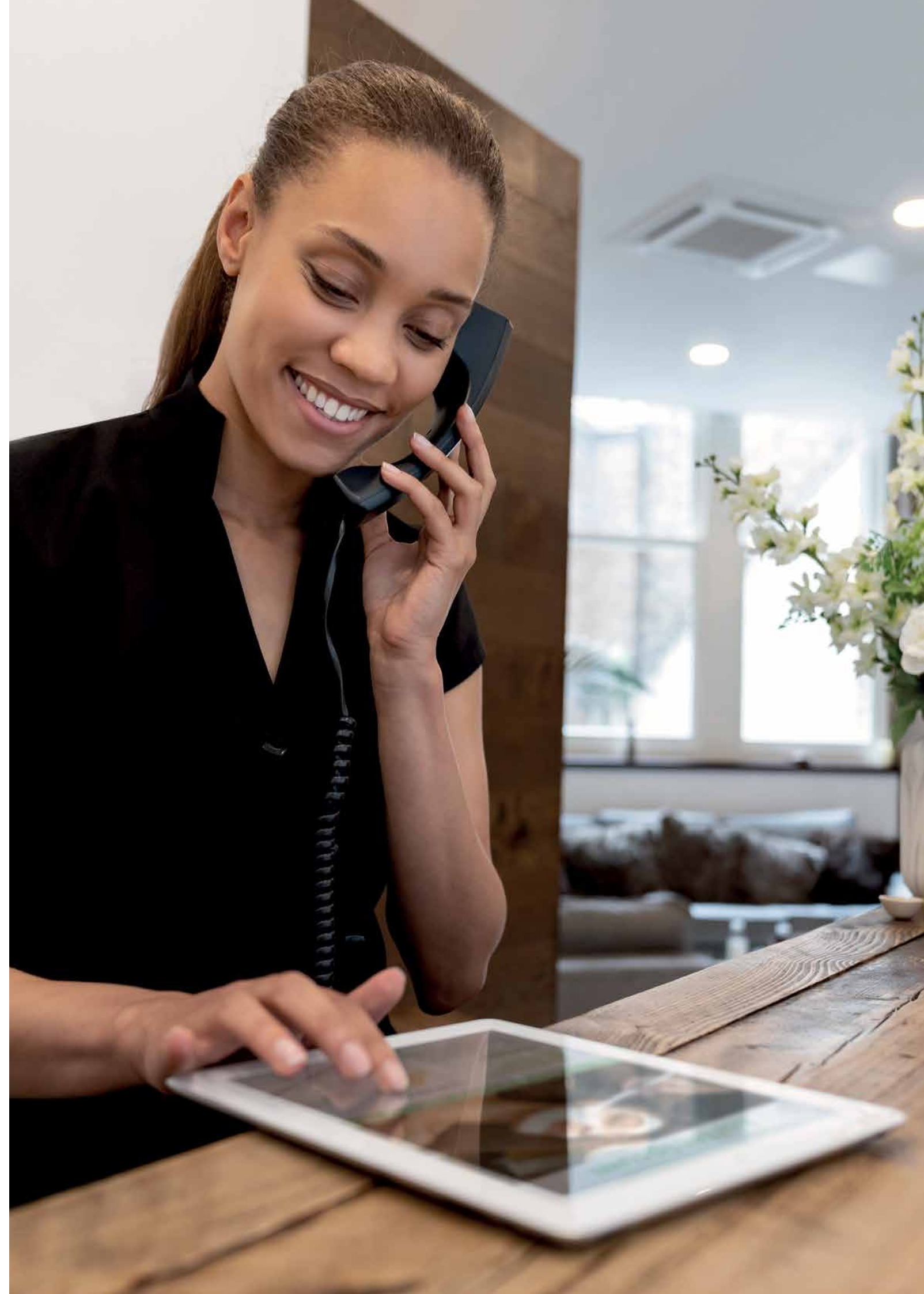
Challenge: With regulatory compliance requirements increasing in a heavily scrutinised environment, our client needed solutions identified that promoted compliance without sacrificing operational efficiency.

Solution: Grant Thornton's approach was customised to the needs of the client. We focused our programme on a core set of financial and operational risks identified in the industry. Our team of trained hospitality professionals effectively addressed these risks through customised audit programs and specifically designed control testing. In doing this, Grant Thornton:

- Demonstrated a minimal learning curve on the client assignments, the result of working with a wide range of hospitality companies and bringing strong overall industry context to our work
- Provided a multifunctional team focused on the hospitality and lodging industry backed by a network of national and international SMEs in all major disciplines

Outcome:

- Helped our client achieve cost savings while minimising the impact on process-owner time
- Delivered a deep understanding of the rapidly changing regulatory requirements and new industry developments, along with value added ideas to support our client's needs as a growth-oriented business
- Provided value through our track record of delivering work that can be relied upon as a part of an integrated financial statement audit
- Our deliverables achieved more than just testing results, they provided value add recommendations for running a best in class control environment.



Helping your business in a post COVID-19 world

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 and long term strategic plans.

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

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.

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Get in touch with our hotel industry professionals or visit [grantthornton.global](https://www.grantthornton.global) to find out more.



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