

Hotel industry: navigating the impact of COVID-19

Surviving, adapting and preparing for the new normal

2020





Introduction

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. In May 2020, New York occupancy rates were 80% below what we would have expected to see, with many hotels temporarily closed.

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

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as companies decide to continue to limit travel and conduct meetings virtually. Secondly, many businesses across the 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, 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. 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



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

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