

Hotels - response to COVID-19

PwC Advisory

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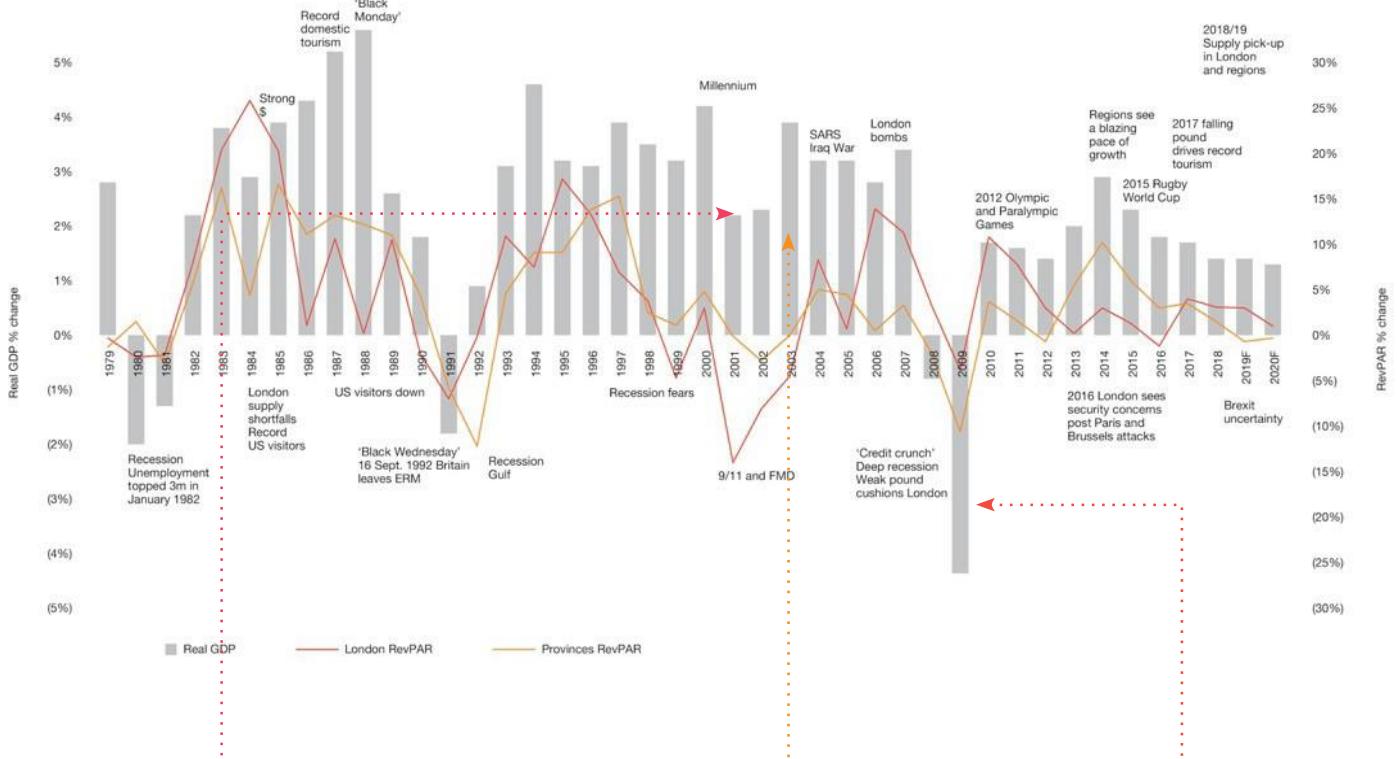
Previous challenges to RevPAR

Over the last 40 years, we have seen the hotel sector consistently impacted through market shocks.

Recessions have impacted London and Regional hotels aligned with Real GDP

SARs didn't really impact GDP but impact on hotels was felt in London due to international travel

Often RevPAR is seen to be impacted more than overall GDP



2001 – Foot and mouth disease:

Contagious disease that impacted UK livestock and farming communities, graphically reported around the world.

UK Tourism was reported by the National Audit Office to have lost revenues of c.£4.5 – £5.4 bn.

The impact of F&M and 9/11 (which was during a similar time) caused a total impact of:

- GDP 2% increase
- London RevPAR 15% down
- Regional RevPAR down 3%

2003 – SARs:

8000 case epidemic largely impacting Asian countries, not the UK.

- GDP 4% increase
- London RevPAR down 5% due to the reduction in International (mostly Asian) visitors
- Regional RevPAR was broadly unchanged

2008 – Global recession:

From Q2 2008 to Q3 2009 the UK economy was hit by the severe worldwide economic crisis.

- GDP fell 4.5%
- London RevPAR down 4.5%
- Regional RevPAR down 12%

Source: Econometric forecasts: PwC July 2019

NB: Dual axis GDP on left and RevPAR on right

Macroeconomic data: National Statistics

Benchmarking data: Hot Stats STR Supply data STR July 2019

Why is the impact of COVID-19 likely to be much worse?

COVID-19 affected markets are showing greater impact to hotel occupancies than the effect of SARs.

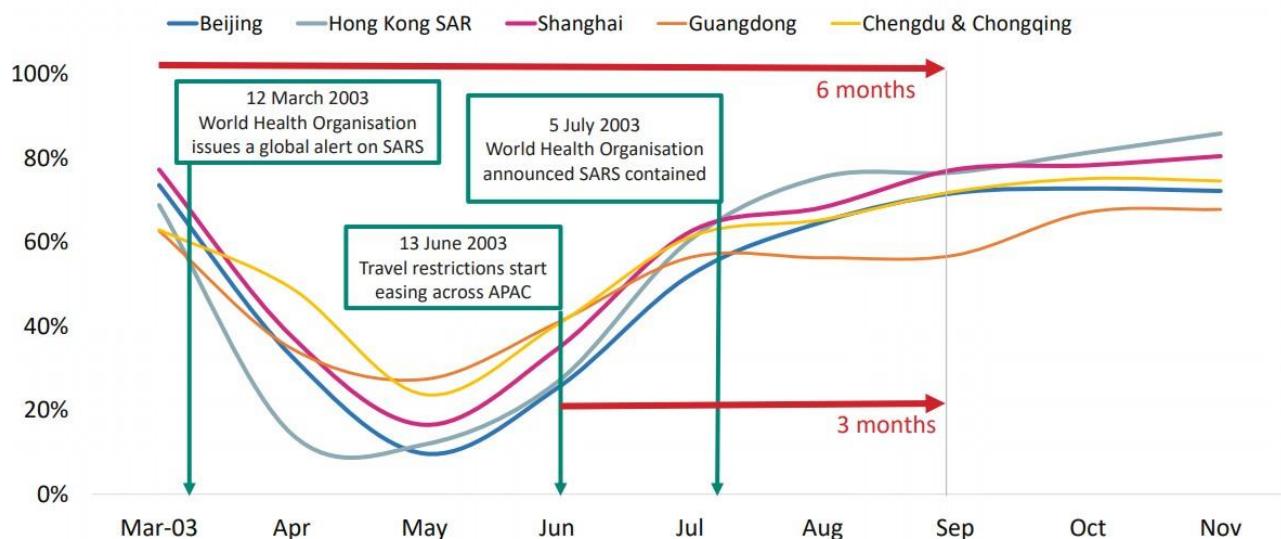
- STR have reported that over 40% of the hotels in Asia Pacific have closed.
- In Mainland China a shutdown was instituted 23 January. The hotel market then saw an 89% occupancy decrease within two weeks. For 22 consecutive days, occupancy levels remained below 10% in Mainland China.
- For the 28 days ending 2 March, Sanya (in Hainan) experienced the largest RevPAR decline of 94%, followed by Macau (-92%), Shanghai (-88%) and Hong Kong SAR (-87%).
- As COVID-19 has spread across the globe, the impact has extended to other hotel markets. European cities are now beginning to feel the full impact. The mixture of a reduction in leisure travel, multiple corporate travel bans, and a large volume of events being cancelled has proved incredibly challenging.
- With the largest number of cases of COVID-19 outside of China, Italian cities are seeing the largest declines. The week of 2 March produced occupancy of just 8% in Milan, a decline of 89%, while in Venice, occupancy was 9%, a decline of 84%. Both Florence and Rome also registered occupancy of less than 20%.
- Other European cities are also far from immune to declining performance. Again, looking at the week of 2 March, London saw occupancy decline 22%, Amsterdam by 25%, Paris by 31%, and Athens by 45%. While occupancy has fallen, rates were less affected. Hotels which have an international focus will be affected more than domestic, but those reliant on domestic markets will still see an impact.



Key message:

SARs was 3 months of pain and 3 months of recovery, this looks like a best case scenario for COVID-19 which is already looking worse

Impact on hotel occupancies during SARs in China



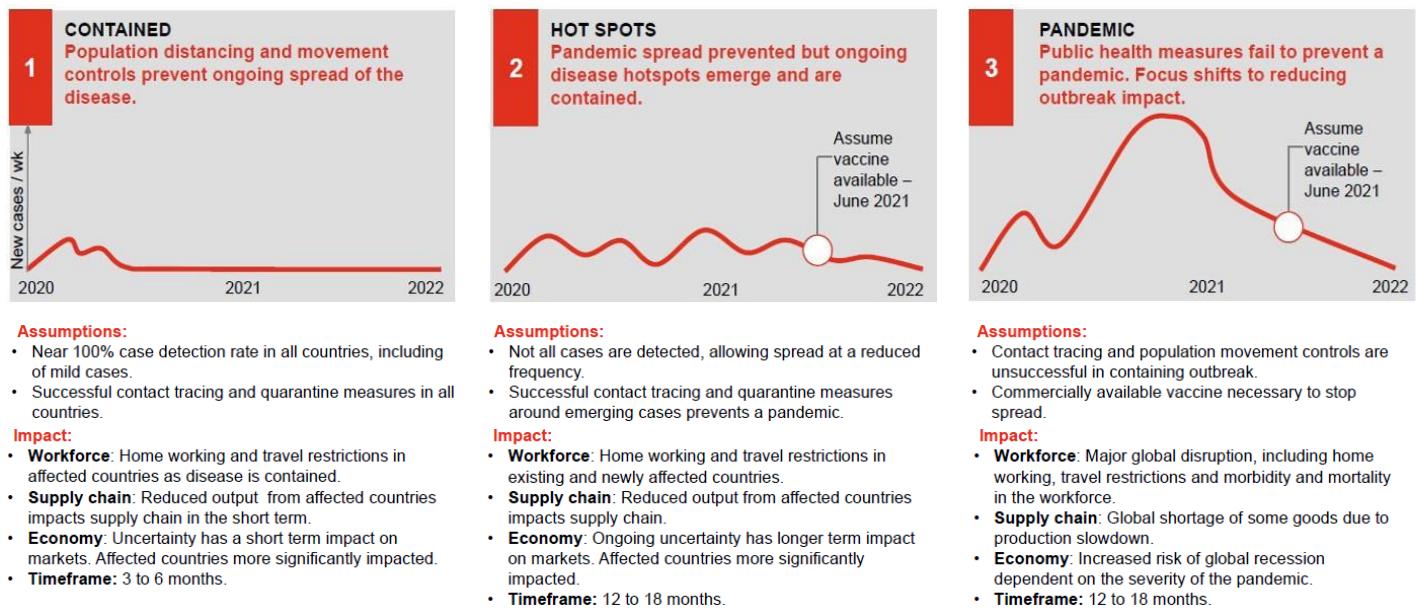
Source: STR / 2020 © CoStar Realty Information, Inc..

Why is the impact of COVID-19 likely to be much worse?

Whilst the full impact of Coronavirus is still being established, forecasts suggest this virus will reach further and impact for longer.

Timescales of the virus

- PwC epidemiologists and economists have worked together to form coherent scenarios based on fact-driven assumptions.
- The SARS outbreak lasted around 9 months but the disease was much less contagious than COVID-19. Since COVID-19 is spreading faster and across all continents, the effects of this on businesses and the economy are expected to last longer, likely until 2022.



Geography

- The SARS outbreak mainly impacted Asia, however we are already seeing huge effects of COVID-19 further afield, including across Europe meaning the breadth and scale of the impact is likely to be greater.
- With China a more significant global player and with COVID-19 spreading further, the Global GDP will be affected across all sectors and markets much more than seen in 2003; the Organisation for Economic Cooperation and Development (OECD) has now lowered its prediction to 2.4 percent, the lowest since 2009.

Severity of impact on travel and tourism

- Already the impact of COVID-19 is higher than during SARS, as many more flights have been cancelled and on a much larger scale than in 2003, with knock-on impacts to the whole tourism market.
- In 2016, Visit Britain stated that Chinese tourists to the UK spent 3.3 times the average tourist spend per person, in total making them the twelfth most important Country for inbound spend in the UK. 70% of Chinese visitor nights are spent outside London.
- As travel restrictions and bans increase across various countries, the impact of the loss of tourism and business travellers from many countries will be felt simultaneously.

The pace of negative change is fast-moving to both actual trading and forward bookings. London has worsened considerably and the expected widespread cancellation of sports and other events will hit many key UK cities hard.

Sources: PwC 'Considering the potential business impacts of the COVID-19 Outbreak'; OECD; Assoturismo; VisitBritain

Why is the impact of COVID-19 likely to be much worse?

COVID-19 is having an immediate impact on the UK Hotel sector, and cities are likely to be more exposed.



Hotels in London and major UK cities are likely to be more affected than others in the regions

- Already in the 7 days to March 1 2020, RevPAR was down -6.9% in London vs. -5.4% regionally against the last 7 days as London is more reliant on international travellers*.
- Other cities are more mixed in their impact, seeing a range of -38% to +10% in the 7 days to March 1 2020 across the UK*, with many of the regions already expected to have been impacted by Brexit in January 2020.

Reduction in UK based business revenue streams

- The UK business trip market is worth an estimated £4.2bn per annum, with 74% typically coming into cities or large towns.
- Following the drop in GDP, all non-essential business travel is likely to be drastically reduced as companies across all sectors look to protect their workforces in response to COVID-19.
- In addition, hotels are seeing a reduction in conferences, events and business meeting hires and associated revenues, thus making it harder to find alternative revenue streams.

Domestic travellers may provide some relief

- It is possible that the effect on hotels could be mitigated where UK travellers opt in favor of 'staycations'.
- The likelihood of this will depend on government advice and public opinion on the spread of the virus.
- Not every location will benefit from this however, with visitors likely to prefer smaller independent properties in rural locations.

* Source: STR, 'Impact of COVID-19 on hotel performance' presentation



What you should be thinking about

10 Fundamental priorities:

1 Rapidly understand your current position

- The impact on business is happening now and cash consequences need to be minimised.
- Update your short and medium term cash projections using realistic forecasts that are based on your actual bookings/COVID-19 assumptions rather than prior year comparisons.
- Review and understand your funding position – lenders/shareholders and other options.

2 Act decisively

- Focus relentlessly on the key drivers of cash and the key risks across the business. Have increased board/management meetings to make decisions quickly.

3 Remember 'cash is king'

- Protect your liquidity.
- Prepare a short term cash flow forecast if you don't already have one.
- Implement cash conservation measures and rapid optimisation of working capital to preserve liquidity.
- Seek additional financing/funding from existing lenders/alternative providers/shareholders.
- Understand what options are available from government or banks as crisis support.

4 Be prepared to take tough decisions

- You may face challenging options now to preserve longer term value.

5 Manage your cost base

- Enhance operational performance by ensuring that any quick wins are in place. You will need to consider capital expenditure and whether it can be deferred (without long term damage to the business).

6 Reliable management information and communication is key

- Clearly defined KPIs are essential. Have a crisis management team to ensure there is a consistent approach across your organisation.

7 Plan for different scenarios

- The impact of COVID-19 could be prolonged.

8 Value your people

- Recognise that COVID-19 will also impact employees who will have their own concerns and may not be able to come to work.

9 Take your stakeholders with you

- You will need the support of suppliers, lenders, shareholders and others. Develop clear communication lines – internally and externally.

10 Take advantage of the opportunities

- Every crisis does present opportunities – take advantage of these when the time is right.

Cash conservation is now critical

Remember 'cash is king'

A hotel business' life support system is its ability to generate cash but in a trading crisis, even more emphasis should be placed on the following:

- Adopting a proactive hands-on approach to cash management, e.g. short-term cash flow reporting and forecasting using realistic assumptions for actual bookings;
- Aggressive working capital management, i.e. seeking whatever support is possible from suppliers and government (including tax payments); assessing the adequacy and quality of stock levels; ensuring that customers pay promptly);
- Review of discretionary and non-discretionary expenditure and assessment of what the business really needs;
- Enhancing controls over purchasing and order processes (core and non-core) by lowering authorisation limits and introducing greater senior management accountability.
 - Monitoring performance against financial and non-financial covenants;
 - Communicating openly and frequently with key stakeholders to enhance transparency and avoid surprises;
- Reviewing the adequacy of banking and other financing arrangements;
- Assessing whether financing arrangements are appropriate in light of changing circumstances; and
- Support from shareholders may be required.

We expect those who will ride out the storm best this time will have...

- ✓ Proactive management who contingency plan early.
- ✓ Strong cash management focus and decisiveness.
- ✓ Implementation of a flexible operational model that can react to customer demand.
- ✓ Timely response to demand patterns.
- ✓ Strong relationships with key stakeholders to provide short term support.
- ✓ Focused targeted tactical discounting.
- ✓ Exposure to more resilient segments and consumer trends.
- ✓ Well-maintained and quality site portfolio.
- ✓ Management teams that are ready to react to opportunities that may present during this period.
- ✓ Good communications and PR to the external market around how the ongoing business is reacting to COVID-19.

Contacts

We have extensive hotel sector knowledge as well as situational cash conservation expertise. Please reach out to one of us for a conversation if that would be useful.



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