Hospitality impact of COVID-19

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Impact of COVID-19 on the hospitality industry

Hospitality taking pro-active financial steps to mitigate impact

As the effects of COVID-19 spread across the entire world, the primary focus for governments and businesses is the safety of their people. Whilst this focus will continue, the implications for economic growth and corporate profits have to lead to a sharp sell-off in equity markets across the globe. We are proud to see that our hospitality and leisure clients, being the first ones that experienced the extreme bad weather conditions, are moving quickly and remain focussed to understand and quantify the operational and financial impact for their business. The impact is huge, and not yet predictable, on both revenue and supply chains. Decisions being taken to shut down hotels, restaurants, theme parks, cinemas, not to mention the entire disruptive effect of the travel ecosystem, all have a significant impact on worldwide tourism. As a team, Operators and Investors are trying to mitigate the cash and working capital issues, and stay in close contact with their stakeholders.

We are proud to see that this sector shows its maturity level: in working together, showing their true hospitality commitments in helping out our society where they can. For example by making their venue available for hospital beds and hospital employees. The situation we are in also brings new business models and opportunities, in defining for instance new delivery concepts, human capital sharing platforms, initiatives in promoting the “staycation or holistay concept” and the use of the less productive time to work on activities that were normally pushed forward like asset counts, security plans, defining standard operating procedures, social media plans etc. The good news is that our colleagues in Asia already see a pick up in this sector, although only at the starting point. This gives hope for the sector at this stage in time. Stay positive, stay focused and stay alert on your financial situation.

Understand the impact on Cash, Working Capital and Profitability

Operational impact and mitigation

- Have an extended cash flow forecast for the next six months. Be realistic and have Base and Downside scenarios to understand critical cash points and any breaches of lending covenants.
- For operators: manage your payments to suppliers.
- Minimize all discretionary operational and capital expenditure. Reconsider or postpone maintenance and other capital expenditure where possible to conserve cash.
- Put in place an advanced revenue management system and pricing models to respond to market developments quickly.

Financial impact

- If your forecasts highlight a funding requirement, assess the equity or debt funding sources available.
- Be transparent towards existing lenders and involve them in the mitigating procedures and continuity plans.
- There may be alternative lenders that can move quickly to provide short term funding. However, these may have a higher interest charge and fee structure.
- Ensure you apply for the tax refunds and other financial relief measures.
What should you be focused on, and what should you be doing …

Assess the impact on Occupancy and RevPAR and create a plan to mitigate

- For investors: know how your operators are affected and identify the type of contracts that are applicable (lease or management).
- Talk to your operators to discuss their expectations about the impact on performance.
- For operators: assess the impact on Occupancy and RevPAR and create a plan to mitigate risk.
- Understand if the loss will be permanent or just delayed. For investors, understand the impact on the operating fees.

Proactively manage your key stakeholders

- Talk to your suppliers, funders, project developers and contractors to manage expectations and maintain confidence.
- Open the discussion with suppliers on discounts of supplies, rent etc.
- If you are going to breach covenants, speak to your lender to seek a waiver where this is clearly a short term issue that will not impact viability.
- Focus on HR, talent and communications on providing clarity for your people, and on maintaining engagement & morale in this difficult time.
- Offer your guest different options for cancellation to retain the customer in the long-term.

Keep plans under active review

- This is a dynamic and fast-moving environment. Ensure that you keep abreast of changes to the situation and impacts these may have.
- Be prepared to quickly respond to the changes outside of your normal operating and business processes.
- A separate governance structure may be required to allow decisions to be swiftly made, communicated and implemented.
- Use this downtime to re-evaluate your business, train your employees and try to develop new products to become more flexible, look for new opportunities.

What are our clients saying…

"We must prepare for the recovery from a financial, operational and marketing standpoint"

"The occupancy rate of our hotels in Amsterdam are dropping from >80% to below 15%"

"New investments on hold in anticipation of market developments"

"The global travel ecosystem is down with significant consequences for the economy"

"Guest occupancy rates can slow when faced with an issue like COVID-19, but the business always comes back and will pick up eventually"

"Despite the downside this crisis may bring, it will most probably also provide opportunities. We have some dry powder available"

"We opened a new hotel 10 days ago and are now obliged to close it down"

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