



## Hospitality and Tourism Sector Domestic Market Review

The Hospitality and Tourism Sector is one of Ireland's most diverse and vibrant areas of employment seeing significant growth over the last decade making it a key component of the Irish economy.

### Introduction

Various reports value the sector's total economic contribution at between €5 billion - 7.6 billion, representing between 1.5% - 2.3% of GDP. In addition to core primary hospitality businesses, the sector is also a significant contributor to secondary businesses and generates a €3.2 billion direct spend with suppliers per annum. While the sector employs some 260,000 workers, 71% of sectoral employment is outside of Dublin<sup>1</sup>. The activities of the hospitality sector are crucial engines within regional and local economies and have been instrumental

in supporting the recovery of Ireland's more rural regions post financial crisis.

This article seeks to highlight the current and long-term issues being faced by the industry whilst identifying options available to support businesses to ensure their ability to persevere through the pandemic. At the beginning of 2020, it was forecasted to be a year of steady growth for the Hospitality and Tourism Sector. However, shortly after COVID-19 widespread travel bans and global lockdowns, it became clear, almost immediately, that the sectors would

become one of the quickest and hardest hit with an all but collapse in revenues. In Ireland, social distancing requirements, the closure of wet bars and restrictions on indoor gatherings have resulted in the industry being effectively shut down. The Irish Tourism Industry Confederation (ITIC), representing the leading tourism and hospitality stakeholders across the public and private sectors estimates that the total cost of COVID-19 to Irish tourism in 2020 will amount to €6.9 billion<sup>2</sup>.

In addition to the impact of COVID-19, there continues to be a nervous

<sup>1</sup> Irish Hotel Federation

<sup>2</sup> ITIC Tourism Industry Revival Plan July 2020

anticipation of what Brexit may bring to the Irish Hospitality sector. There is no doubt that certain parts of the Irish hotel market have already been affected by the UK's decision to leave the EU. Prior to the pandemic, the weakness of Sterling had impacted tourism with a reduction in visitors from Northern Ireland and the UK.

There is no certainty as to when these sectors will fully reopen for business with a significant risk that unless interventions are taken in the short term, the businesses within this sector will remain in a state of distress and worse still, may no longer be viable and unable to return to business. Budget 2021 saw the Irish Government implementing a series of additional support measures and schemes aimed to protect workers, reduce large costs for businesses, protect liquidity and stimulate the economy in a period where demand has almost been eliminated.

### **Immediate Challenges**

In light of the reduced levels of demand within these sectors coupled with nationwide government restrictions, employment numbers have been impacted severely. The majority of full and part-time staff have been laid off due to businesses operating at significantly reduced capacity, in order to comply with strict social distancing measures. Unlike previous economic downturns, higher level and senior staff positions within the sectors remain vulnerable and retention of key personnel will prove more difficult the longer the sector remains shuttered.

According to the latest insolvency statistics compiled by Deloitte for Q3 2020, the hospitality sector recorded the third highest level of insolvencies with 70 incidences representing 16% of the total number. This is marginally higher than the level of insolvencies recorded in that sector during the same period in 2019 (14% of total). Out of the 70 cases recorded up to Q3 2020, more than half (54%) related to companies operating in the food services sector (i.e. restaurants, catering companies etc.). Furthermore, 20 hotels and inns (29%) went through an insolvency process so far in 2020 and



17% (12) insolvencies were recorded for companies operating as bars or pubs.

Whilst the Hospitality and Tourism Sectors experienced a moderate uplift in bookings and activity over the course of the summer months in regional and holiday locations, owing to an increase in "staycations", the outlook for the months ahead is bleak. With the summer season well and truly finished and further restrictions in place throughout Ireland, hotels and guesthouses are now reporting at least a 70% drop in projected revenues for the next number of months compared to this time last year<sup>3</sup>.

Bookings for October have plunged with average room occupancy levels at 24% nationally, compared to 86% for the same month last year. Dublin City and County hotels occupancy rates for October are set to be just 12%, clearly reflecting the impact of travel restrictions in the Capital<sup>4</sup>. The impact of the pandemic has been far greater for hotels located in the main cities of Ireland with foreign tourism and corporate travel non-existent.

According to the Irish Hotels Federation an estimated 100,000 jobs have been lost so far this year and a further 100,000 are at immediate risk without substantial sector specific supports being put in place.

According to the Irish Hotels Federation an estimated 100,000 jobs have been lost so far this year and a further 100,000 are at immediate risk without substantial sector specific supports being put in place.

<sup>3</sup> Irish Hotels Federation

<sup>4</sup> Irish Hotels Federation



## Liquidity issues will continue to challenge businesses as a result of already strained cash flows

Despite Government supports, lender forbearance and reduced expenditure, businesses continue to incur unavoidable costs during periods of closure, resulting in increased liquidity pressures. The level of liquidity required to pay staff, key suppliers and even service debt obligations is a huge challenge for most given the limited cash reserves held by many.

The Irish Hotels Federation have welcomed the range of measures announced as part of Budget 2021. These include a new variant of the Employment Wage Subsidy Scheme, continued debt-warehousing provisions for small and medium sized businesses, a reduced VAT rate of 9% for the sector, commercial rates waivers, a new scheme for closed businesses. This will provide weekly funding based on 2019 average weekly turnover and a €55m Tourism Business Support Scheme.

Whilst these measures are welcomed by most operating within the sector, liquidity issues will continue to challenge businesses as a result of already strained cash flows.

### Post-COVID-19 Challenges

It is unknown at present when normal trading conditions will return for many sectors, and whilst the consensus is that the market will return to more stable trading conditions on foot of a vaccine, this is a significant unknown and leaves many businesses operating within the Hospitality and Tourism Sector nervous.

Looking at the sector from both a domestic and international standpoint, businesses will undoubtedly continue to face reduced revenues in the short to medium term. Government health restrictions are expected to remain throughout 2020 and 2021, which will continue to impact on capacity and in turn profitability.

The pandemic has changed consumer preferences and has influenced how corporates and businesses alike, engage, and interact both in the marketplace with their clients and with their employees. There has been a massive shift towards the use of technology and how we interact with each other on a daily basis. More and more businesses are adopting more agile working policies and many are set to encourage working from home into the future irrespective of whether social distancing measures remain in place. Revenues derived from both the corporate function and wedding markets within the industry, will unlikely ever return to their Pre COVID-19 levels.

Consumer confidence will play a huge part in the recovery process however

social distancing measures have altered the way in which corporates and consumers alike are planning events, restrictions on numbers for indoor gatherings will massively impact events and revenues which are derived from this area of the hospitality market into the future.

### What is the impact of these challenges on businesses?

- **Raising new finance:** There is widespread concern for many operating within the market surrounding their ability to raise new finance and/or access credit once businesses are fully operational again;
- **Liquidity issues and cash burn:** This will result in missed creditor payments and a rise in defaults on medium-longer term finance obligations;
- **Accumulated debt:** Accrued from the periods of closure leaving many businesses in a vulnerable position at reopening stage and causing long-term balance sheet stress;
- **Price competition:** In an attempt to increase occupancy rates, it is envisaged that there will be intense price competition amongst hotels in the coming months with a potential race to the bottom in order to gain volume in the market. Price competition will have a negative impact on profitability, which again will cause working capital pressures for businesses.

### What steps can businesses take?

The key messages for businesses is to **act early** and seek professional advice from a qualified practitioner. Some practical steps, which businesses can take, are set out below:

- **Analyse your businesses**

The first step for any business is to conduct an internal and external review of their business to understand the economic and social environment in which they operate at present, it's also equally important to consider the opportunities for their business going forward.

- **Reduce "cash burn"**

Whilst there will be an inevitable element of cash burn during the current period of closure, and with the potential for future tightening of restrictions in 2021, all steps should be taken to cut costs to the absolute minimum, warehousing of tax liabilities should also be considered.

- **COVID-19 Supports**

As noted earlier in this article there are a range of COVID-19 support measures available to businesses at present in the form of Government supports and grants and every business should ensure that they are availing of these.

- **Open Dialogue**

Early engagement with key stakeholders of the business such as trade suppliers, staff members and funders is extremely important. Consensual negotiations should be the default starting position for businesses in distress. Given the levels of distress across all sectors in the Irish economy at present, engaging early is likely to yield the best outcome for businesses. This could mitigate the likelihood of a stakeholder or secured creditor of the business being "forced" to take a position due to perhaps an event of default or inaction. We have seen a number of such positions in the market to date where businesses have negotiated direct deferrals of key payment dates, agreed restructured payment plans and secured temporary forbearance from their secured creditors.

- **Seek help**

Business owners should not be afraid to seek help from specialised advisors. Experienced practitioners will often be able to provide an "options analysis" for the business to assist in determining the optimum strategy to protect long-term value and the underlying asset base of the business.

It should be noted that whilst consensual negotiations can often yield quick results in the form of deferred payment plans and elements of forbearance, in most circumstances these measures are temporary in nature and will unlikely result in a long-term viable restructuring plan.

Some creditors may also refuse to engage in a consensual process and may hold out on agreeing any terms while they await the outcome of negotiations with other creditors. They may hold out for what they believe is a better return for them, thus making the process difficult to achieve optimum results.

Given the heightened liquidity risk in the sector already, incurring significant costs in a non-binding process could further add to a business's insolvency risk and create an event of default prior to all agreements being put in place.

Early engagement with key stakeholders of the business such as trade suppliers, staff members and funders is extremely important



## Formal Restructuring Options

There are a number of formal restructuring options available to companies across various jurisdictions where a court process may be used to negotiate formally a preferred outcome. These include a Part 9 Scheme of Arrangement and Examinership. There is also Examinership-lite which is a less costly restructuring tool and a very viable option for smaller sized companies operating within the Hospitality and Tourism space.

## Examinership Process

Examinership is an Irish Companies Act procedure, which can be proposed by any company where it can establish centre of main interests in Ireland. It permits a company to compromise with its creditors and propose a viable scheme of arrangement to the court.

The appointment of an examiner provides the applicant company with an automatic moratorium from all its creditors, for balances due and owing up to the date of the application. Any amounts falling due during the protection period, including borrowings or leasing obligations, must be met and an applicant would have to demonstrate they had adequate cash flow for the protection period to meet such costs.

The scheme is only required to be approved by one class of impaired creditors, subject to no creditor being unfairly prejudiced by the scheme and it is a process that can be applied for by companies which are insolvent or likely to become insolvent.

The scheme must demonstrate that all creditors would achieve the same or a better return from such a process versus a liquidation of the company. Such a scheme of arrangement must be prepared and approved by the Courts within 150 days of an application for Court protection being made. (This was previously 100 days, but the Irish government passed temporary legislation in August to extend this

period to 150 days, given the current global economic issues. This extension will apply to applications made prior to 31 December 2020).

## Key benefits and drawbacks

The key benefits of examinership are that an examiner's scheme can be negotiated throughout the protection period, and up until its presentation at the various meetings of creditors. In addition, the company automatically is protected from its creditors for all balances due and owing prior to the appointment of the examiner.

While there are a number of benefits to an examinership process, it is not without certain drawbacks, there may be a significant funding requirement during the examinership process to maintain the company as a going concern, which could require external financing from existing lenders or equity holders. Additionally, if a scheme is not

agreed within the period, the courts may order the winding up of the company, if deemed just and equitable.

## Examinership-Lite Process

The key difference with this process is that smaller companies can apply for examinership through the Circuit Court, where previously they would have had to go to the High Court. This should make examinership both cheaper and more accessible to SMEs and, as a result, enable more companies to take advantage of this rescue process and give them a real alternative to liquidation or receivership.

It is important to realise that, as a company's financial position deteriorates, effective rescue options, such as Examinership and Examinership-lite, are available. However, the window of opportunity to take advantage of this can be brief, often only a matter of months, so quick action is critical.

## Conclusion

It is clear that the businesses within the Hospitality and Tourism Sector at this time are facing significant challenges and key strategic decisions will be required for the long-term future survival of many.

Acting early in a time of distress will allow each business and its management team make the most appropriate decision for their continued success and, in doing so, maximise the number of options available to them, whether direct stakeholder negotiation or creditor-supported formal restructuring processes.

Given the underlying liquidity challenges for all parties, by developing an appropriate options analysis and engaging with creditors, a business can successfully navigate this period of volatility.

Deloitte's restructuring advisory team in Ireland, supported by our wider financial and advisory services (including tax, risk and accounting advisory), teams is best placed to advise clients in navigating the current trading environment. We have already advised a number of businesses in seeking available options and have provided support to clients in navigating the current volatility in the market.

# Contacts

**Ken Fennell**

Partner - Restructuring Services  
kfennell@deloitte.ie

**Mark Degnan**

Director - Restructuring Services  
madegnan@deloitte.ie

**Daryll McKenna**

Senior Manager - Restructuring Services  
dmckenna@deloitte.ie

Dublin  
29 Earlsfort Terrace  
Dublin 2  
T: +353 1 417 2200  
F: +353 1 417 2300

Cork  
No.6 Lapp's Quay  
Cork  
T: +353 21 490 7000  
F: +353 21 490 7001

Limerick  
Deloitte and Touche House  
Charlotte Quay  
Limerick  
T: +353 61 435500  
F: +353 61 418310

Galway  
Galway Financial Services Centre  
Moneenageisha Road  
Galway  
T: +353 91 706000  
F: +353 91 706099

Belfast  
19 Bedford Street  
Belfast BT2 7EJ  
Northern Ireland  
T: +44 (0)28 9032 2861  
F: +44 (0)28 9023 4786

[Deloitte.ie](http://Deloitte.ie)

# Deloitte.

At Deloitte, we make an impact that matters for our clients, our people, our profession, and in the wider society by delivering the solutions and insights they need to address their most complex business challenges. As the largest global professional services and consulting network, with over 312,000 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has over 3,000 people providing audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. Our people have the leadership capabilities, experience and insight to collaborate with clients so they can move forward with confidence.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte Ireland LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte Ireland LLP is a limited liability partnership registered in Northern Ireland with registered number NC1499 and its registered office at 19 Bedford Street, Belfast BT2 7EJ, Northern Ireland.

Deloitte Ireland LLP is the Ireland affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

© 2020 Deloitte Ireland LLP. All rights reserved.

