

Bucking the trend



At a first glance, this looks like an awful time to even think about growing your business.

All around us, we can see lower revenues, lower profits and lower prospects. Customers are much more cautious spending on hotels and restaurants, either for business or for pleasure. Exchange rates are volatile, balance sheets are dangerously exposed and bank credit is tight or non-existent.

For the strategic hotel investor, however, this is a great time to be looking at deals. Land prices and construction costs are falling; and valuations on operating assets are softening. For investors with an appetite, several steps can be taken now.

●**Stalk those hotel properties that could fail** - you might know of those who have not used branded channels of distribution well, have weak revenue management processes, are owned by a private equity company exposed to aggressive gearing, or where the hotel's management company is exposed to inadequate coverage for lease costs.

You, your team and your advisors should identify which of your competitors are exposed. You should take a view on which business models are ill-suited to these times and likely to fail. Now is the time to formally identify which assets and businesses would add value to your existing business if acquired.

●**Anticipate the effect of consolidation** - it's reasonable to assume that some of the major players and some of the smaller players too will come unstuck. Household names in this industry may not carry on forever. If there was to be consolidation and a portfolio of hotels or brands changed ownership, which parts of the estate would your business be interested in acquiring?

●**Act fast** - the buying opportunities we are beginning to see - and will witness perhaps for the next year - are once-in-a-cycle opportunities. Your company needs to be able to undertake due diligence to quickly target the main issues, recognising that there will be risk left unknown and perhaps unknowable. Is your team ready – does it have the capacity, the tools and the knowledge? Are your retained professional advisors ready, able and willing? Can you put together a coalition of interested parties to address an opportunity when it presents itself?

●**Be ready** - you'll need to prepare your investors, your lenders, your executive team and maybe even some of your business partners. And certainly your balance sheet. You need to build consensus now that these opportunities are the right ones. You need to have agreement that you can do this and that you can do it without prejudice to the existing business. You need to set realistic goals for future profits as well as for future cash needs, particularly from equity providers.

If you are ready, if you have the skills and resources on tap to act fast, if you have anticipated the future shape of the industry as it affects your part of it and if you are stalking your competitors, you stand a good chance of benefiting from the M&A opportunities that will surely arise in the next weeks and months.

Happy hunting.

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