The Money Matters Series

Managing Cashflow and Repairing the Balance Sheet

The Accommodation Sector

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Topics

1. Market Overview
2. Turnover Levels In Irish Hotels
3. Accommodation Scenario
4. Managing Cashflow
5. What Next?

Market Overview

Macro-economic View

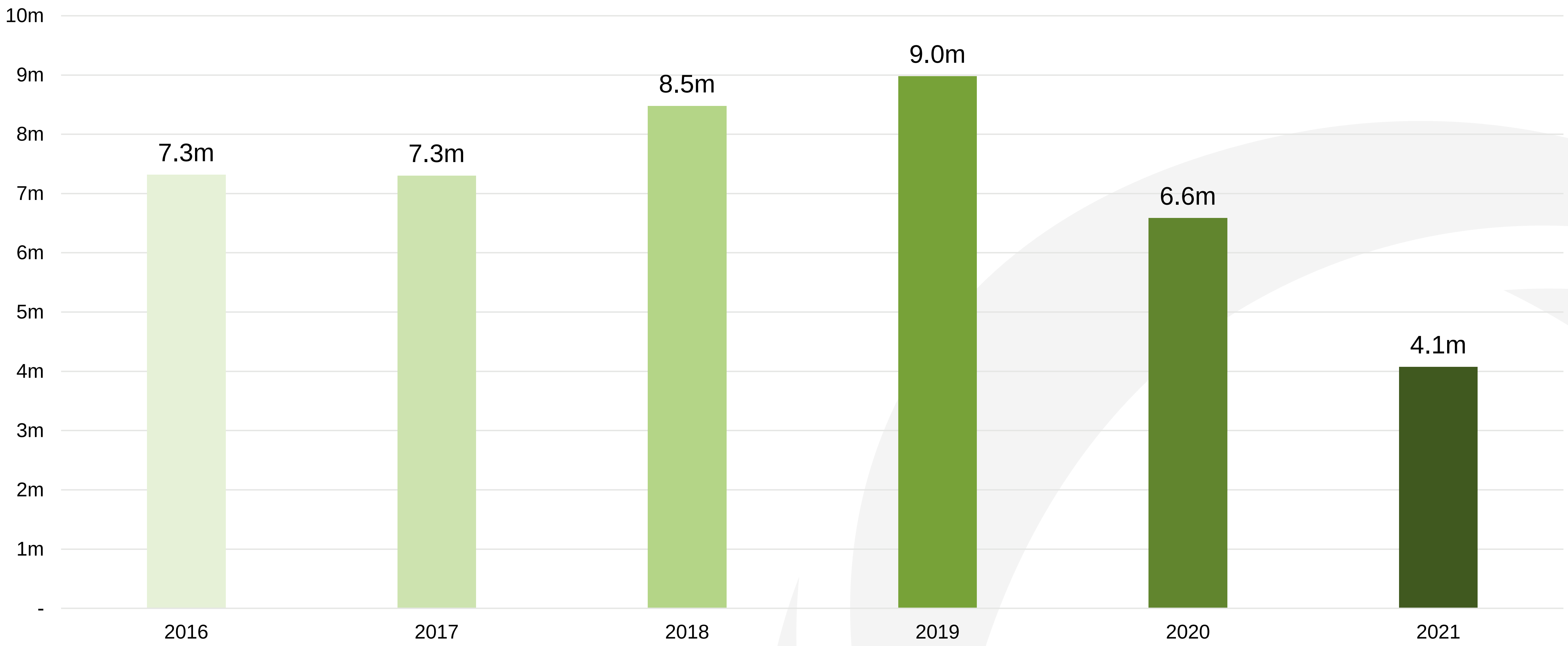
Post-pandemic Economic Recovery

Supply Chain Disruptions

Ukraine-Russia War

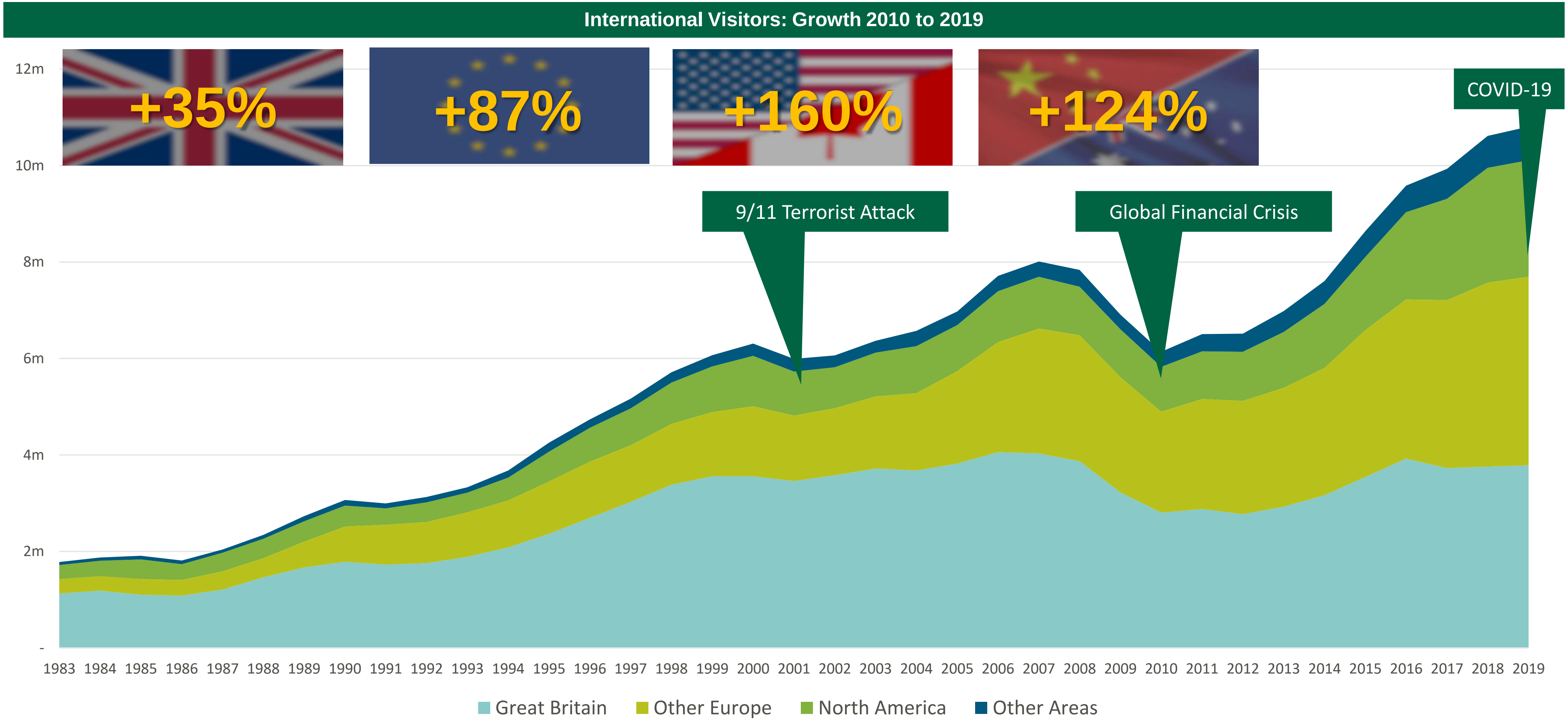
Sustainability

Domestic Trips (Q1-Q3 Data)

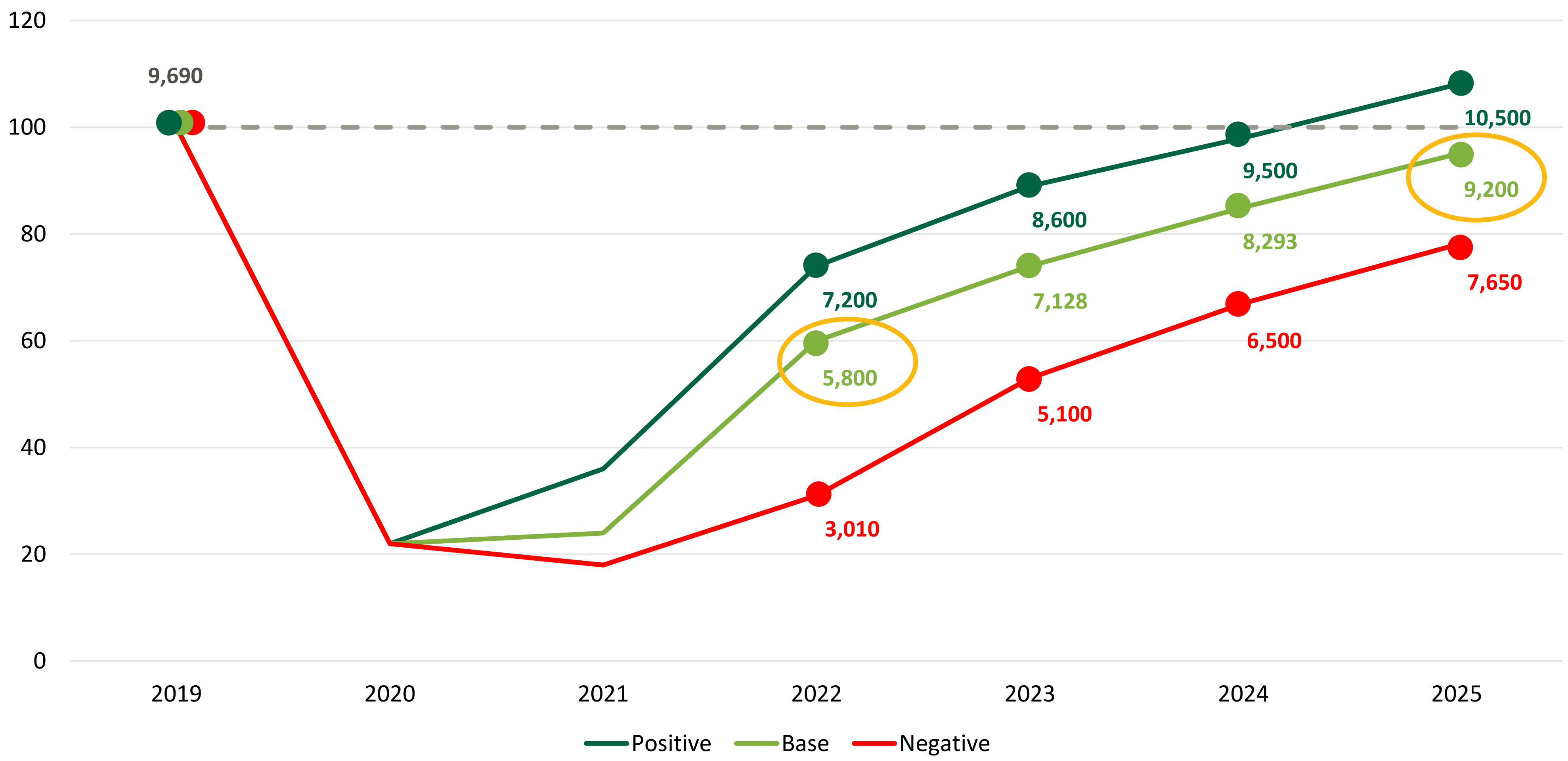


Source: *CSO*

International Visitors



International Visitor Recovery Forecast



Source: *ITIC*

Turnover Levels in Irish Hotels

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Trading Market Overview by Turnover

Hotel Turnover	Dublin	Regional Ireland
T/O < €3m	21%	48%
T/O €3-7m	18%	34%
T/O €7-10m	18%	13%
T/O €10m+	43%	5%
Number of Rooms	**22,069**	**40,500**
Number of Hotels	**157**	**671**
Average Hotel Size	**141**	**60**

Source: *Fáilte Ireland Hotel Register & Crowe Annual Hotel Industry Survey*

Consider…

- Increasing turnover can improve EBITDA percentage
- Some cost increases will need to be absorbed
- Over 60% of hotels in Dublin have turnover greater than €7m
- Over 80% of hotels in Regional Ireland have turnover less than €7m

Trading Market Overview by EBITDAR

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Hotel Turnover	Dublin	Regional Ireland
T/O < €3m	25%	13%
T/O €3-7m	29%	14%
T/O €7-10m	33%	16%
T/O €10m+	38%	18%
Number of Rooms	**22,069**	**40,500**
Number of Hotels	**157**	**671**
Average Hotel Size	**141**	**60**

Source: *Fáilte Ireland Hotel Register & Crowe Annual Hotel Industry Survey*

Consider…

- A 5% increase in all costs for a Regional Ireland hotel that is absorbed would reduce EBITDAR by over 30%
- A 5% increase in all costs for a Dublin hotel that is absorbed would reduce EBITDAR by c8%

Inflationary cost pressures will have a disproportionate impact on hotels where the cost base is higher.

Accommodation Scenario

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Hotel Crowe

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- Mid-priced regional Ireland hotel
- 100 bedrooms
- €3m - €7m in turnover
- Older Property
- High level of food and beverage
- High level of overheads

Profit and Loss

	2019		2021		2022	
Occupancy	**75%**		**35%**		**60%**	
ARR	**€91**		**€94**		**€105**	
Revenues	**€**	**%**	**€**	**%**	**€**	**%**
Room	€2,500k	43%	€1,200k	44%	€2,300k	48%
Food	€2,100k	36%	€900k	33%	€1,600k	33%
Beverage	€900k	16%	€350k	13%	€600k	13%
Other	€300k	5%	€250k	9%	€300k	6%
Total Revenues	**€5,800k**		**€2,700k**		**€4,800k**	
F&B Cost Of Sales	€900k	30%	€400k	32%	€700k	32%
Direct Costs	€450k	8%	€200k	7%	€350k	7%
Gross Margin	**€4,450k**	**77%**	**€2,100k**	**78%**	**€3,750k**	**78%**
Payroll Costs	€2,200k	38%	€600k	22%	€1,900k	41%
Overheads	€1,300k	22%	€1,100k	41%	€1,400k	30%
EBITDA	**€950k**	**16%**	**€400k**	**15%**	**€450k**	**9%**

Hotel Facts

- Older property
- High F&B mix
- Mid-teen EBITDA percentage
- Average Room Rate discounted to generate demand

Balance Sheet

	2019	2022
Fixed Assets		
Land & Buildings	€9,000k	€9,200k
Fixtures & Fittings	€500k	€375k
Current Assets		
Cash	€170k	€350k
Stock	€90k	€85k
Debtors	€170k	€130k
Total Assets	**€9,930k**	**€10,140k**
Liabilities		
Trade Creditors	€185k	€110k
Other Creditors	-	€150k
Tax Liabilities	€150k	€350k
Bank Loans	€4,000k	€4,000k
Total Liabilities	**€4,335k**	**€4,610k**
Net Assets	**€5,595k**	**€5,530k**
Financed by Equity & Retained Earnings	**€5,595k**	**€5,530k**

Comments

- Wage supports helped hotels to build cash reserves
- Tax warehousing was beneficial for cashflow management
- Many hotels and guesthouses spent capex during COVID

Cashflow

	2022	2023	2024
EBITDA	**€450k**	**€469k**	**€483k**
Less CAPEX	€144k	€148k	€152k
Less Loan Interest	€140k	€135k	€130k
Less Loan Capital	€160k	€165k	€170k
Cash Movement	**€6k**	**€21k**	**€31k**
Opening Cash	€350k	€281k	€47k
Payments – Other Loan	€75k	€75k	-
Payments – Warehouse Tax	-	€180k	€70k
Closing Cash	**€281k**	**€47k**	**€8k**
Creditor Balance	€325k	€70k	-
Creditors (excld. Bank Loan)			
Other Loan	**€150k**		
Warehouse Tax	**€250k**		
Total	**€400k**		

Comments

- What will your business look like in two years time?
- Stagger the payments
- Understand the interest rates

Managing Cashflow

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Managing Profit & Cashflow

Revenues

Costs

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Increasing Costs

- **Wage** inflation is further amplified by;
    1. Scarcity of workers across Europe.
    2. Minimum wage has increased 7% from pre-COVID.
    3. General wage increases up to 15% or higher?
- **Energy** prices are the dominant driving force in rising costs.
- **Insurance**.
- **Can increased costs be passed on?**

Expectation is that inflation will eat into cash reserves and profitability.

Irish Annual Inflation Rate reached 6.9% in March 2022

(Eurostat)

Implications of Rising Costs

Dublin Hotel: 141 rooms average size with 59.2% accommodation sales

2022 Rebased at 75% of 2019

Revenue	Payroll	Utilities	All Other Costs	Profit	Profit %
€7,664k	€2,391k	€239k	€2,714k	€2,320k	30%

2022 Costs Increasing

75% of 2019	+15%	+30%	+5%	Profit	Profit %
€7,664k	€2,750k	€311k	€2,850k	€1,754k	23%
	+€359k	+€72k	+€136k	-€566k	

Dublin

Based on an average hotel size of 141 rooms, cost increases could cost c€4k per room on annual profit.

Profit impact will in some way be mitigated by the hotels ability to increase prices or achieve efficiencies.

Implications of Rising Costs

Regional Ireland: 60 rooms average size with 38.8% accommodation sales

2022 Rebased at 75% of 2019					
Revenue	**Payroll**	**Utilities**	**All Other Costs**	**Profit**	**Profit %**
€3,051k	€1,165k	€137k	€1,234k	€515k	17%

2022 Costs Increasing					
75% of 2019	**+15%**	**+30%**	**+5%**	**Profit**	**Profit %**
€3,051k	€1,340k	€178k	€1,295k	€237k	8%
	+€175k	+€41k	+€62k	-€278k	

Regional Ireland

Based on an average hotel size of 60 rooms, cost increases could cost c€4.5k per room on annual profit.

Profit impact will in some way be mitigated by the hotels ability to increase prices or achieve efficiencies.

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Cost Reduction/Recovery

Lower demand levels, inflationary pressure and staff shortages driving EBITDA downwards

- Consider how we can cut costs/expenses without impacting quality or cutting corners?
  - Initial focus should be on what is being consumed
  - Focus on rate being paid
  - Focus on labour
- Consider how we move price points, average spend up and keep our customers
- Consider how we can find new sources of revenue and growth
- Consider how best to reinvest in the business

What Next?

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Key Actions

- Preserve margin, but understand value
- Cost management will be ongoing
- Project out, forecast continually
- Pass costs on where appropriate
- Appoint a spending controller
- Draft a cost mitigation action plan

Thank You

Further information and supports:

- Business Supports Hub
  https://covid19.failteireland.ie/
- National Schedule of Supports
  https://covid19.failteireland.ie/support-programmes-schedule/

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