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RE-THINK AND RE-START: THE HOSPITALITY INDUSTRY IN NORTHERN IRELAND

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CONTENTS

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RE-THINK AND RE-START

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The early predictions that the hospitality and tourism sector would be hit first, hit hardest, and take the longest time to recover from the COVID”19 pandemic have sadly proven to be true.

It is over a year now since the pandemic took hold and the first lockdown started. However, as we approach the end of the third and we hope, the last lockdown, we do so with a real sense of hope and dare I say it, confidence, that the hospitality and tourism sector can finally do what it does best, get back to trading.

The most recent announcements from the NI Executive regarding the reopening timetable is obviously welcomed, but the timeline is unfortunately longer than what was hoped for. The extent of the trading restrictions that may apply are also a concern. Nonetheless, I'm certain that the sector will now mobilise and be ready for that day.

Over the last 12 months the economy has suffered greatly as a result of the pandemic, in particular the hospitality and tourism sector has been one of the hardest hit. During that time, the resilience of the sector and the innovation of the operators within it, has once again shone through and, with support from Government, it is still poised to reopen, even after such long periods of enforced closure.

Throughout the pandemic I have worked closely with the sector, both in my role as Chair of the Hospitality Industry Response Group and in working with businesses on the ground to help them overcome the many challenges they’ve had to face.

From what I already knew and from what I have seen over the last 12 months within the industry, I have every confidence in our local operators to make the most of the reopening and to get back to delivering the high levels of service that they are renowned for.

We cannot be complacent though and we still need to be mindful of the legacy issues that the pandemic has left us with. Chief amongst these is the increased level of debt that many businesses have had to avail of in order to survive. Whether this debt has arisen from banks, Government or suppliers, it must all be factored into planning for the future.

Within this series, we will share with you our thoughts on the economic recovery within the sector and provide you with a focus on the opportunities that may arise as the recovery builds momentum.

In the meantime, we will continue to work with you on the ground and also through the Hospitality Industry Response Group in its engagement with Government and other stakeholders to ensure that the industry is given every opportunity to reopen without restrictions and from there, to successfully rebuild its trade.

RE-THINK AND RE-START: ADAPTING YOUR BUSINESS TO UNLOCK LONG TERM SUCCESS

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Adapt : Plan : Skills : Costs : Government Support

The hospitality sector has spent the past twelve months reacting to the challenges posed by the COVID-19 pandemic. Business owners responded swiftly by availing of the grants, reliefs and funding/lending available to them. However, without revenue to build the war chest necessary to see a business through the winter months of January and February many businesses that were thriving pre-pandemic are now facing the prospect of not being able to reopen when restrictions are finally lifted.

Adaptability

Those businesses that have sufficient cash reserves are likely to bounce back, with many analysts predicting a short term mini-boom when restrictions are lifted. This may cause its own issues with insufficient capacity, complicated further by any ongoing social distancing measures.

There is no doubt that businesses will need to adapt their operating models for both the medium and long term as well. Businesses which are over-geared, with significant debt servicing costs and underinvested sites, may struggle to bounce back

Those businesses that survive will be fighting for the attention of the consumer, but consumer habits and attitudes have changed. Taking time to reconnect with the consumer to understand their requirements will enable businesses to identify how they might differentiate their offering and effectively adapt their business practices. This can be done in a number of ways, such as; social media, online surveys and real time feedback.

We are likely to be living with social distancing for some months to come and as a result, the use of technology will become even more important e.g. checking in on arrival, ordering and payment. These processes are likely to become the new normal, at least in the short to medium term.

By adopting such technology, businesses are likely to improve operational performance and profitability, however, adopting new technology always comes with an additional cash cost.

To rethink your business operations takes time and with many companies limited in their resources, it is vital to prioritise the key areas that need to adapt to contribute immediately to your recovery process. Whether this is your online and digital presence / offering, advertising approach, supplier needs or physical space, immediate action in these areas will be the foundation of your future growth.

Strategic Planning

Many businesses will have undertaken a full operational review at the outset of the pandemic and we have been working with our clients to assist them with their strategic planning; specifically, can the business be made leaner and more efficient? This is particularly relevant around the three major cost categories within hospitality businesses'; food and drink for resale; staff costs; and property.

Supply Chain Management

It may be possible to renegotiate supplier terms or consider alternative suppliers to improve performance. However, given the uncertainty of what future trading could look like, and the number of variables an operator will have to deal with, it may be sensible to maintain existing supply chains and goodwill for the time being. We must also remember that the supply chain has very much worked with the industry during the pandemic and undoubtedly they will continue to do so as the sector reopens.

Employment

The extension of the furlough scheme to September 2021 will continue to provide businesses with the ability to retain key staff and manage costs. During this extended period, consideration should also be given to the development of multi-skilled employees to improve efficiency and reduce costs. Your staff will be at the heart of the recovery process and it is therefore essential that they are involved in your recovery planning and are motivated.

"Businesses are now concentrating on making their operations resilient.....until such times as businesses can start trading again, continued Government support will be essential."

Property Costs

For many businesses in the sector, a significant cost will be in relation to property. Open and honest communication with landlords and other stakeholders is key.

Many landlords will have their own financial obligations to meet. Landlords have had restrictions placed upon them regarding enforcement action, with the Government recently announcing a further extension of the moratorium until the end of June 2021.

Renegotiating lease terms with a landlord may not be simple. Should landlords agree to reduce the ongoing future rent payable, they will look to amend other terms of the lease, such as the extension of the lease term and build in the recovery of the rent they have forgone in 2020 into the extended lease. They may also look to remove tenant break clauses or build in a profit participation clause.

Reopening on a sustainable basis

Businesses are now concentrating on making their operations resilient. However, until such times as businesses can start trading again, continued Government support will be essential. As part of the NI Hospitality Industry Response Group, we have been actively lobbying Government for financial support for local businesses, which has helped safeguard many jobs within the sector. The recent announcements by the Chancellor and the Economy Minister are very much welcome and provide additional breathing space for business recovery plans to be implemented:

> An extension of the 5% VAT rate for hospitality businesses to the end of September 2021 and a further interim 12.5% VAT rate to the end of March 2022;

> Further 12 month's business rates holiday to 31 March 2022;

> An extension of the furlough scheme to 30 September 2021 (full furlough until the end of June, with businesses having to contribute 10% of the wage cost in July 2021, increasing to 20% in August and September 2021);

> UK Self-Employment Income Support Scheme (SEISS) fourth and fifth grants confirmed;

> One off business re-start grants for hospitality businesses; and

> An extension of the COVID Restrictions Business Support Scheme (CRBSS) and the Large Hospitality and Tourism Business Support Scheme (LHTBSS) beyond 31st March 2021.

A critical point for hotels, restaurants and bars will be when a normal trading environment emerges and how that will impact their underlying cash position, particularly when creditors attitudes begin to shift from being supportive, to looking to reduce their exposure.

The sector must also be ready for when Government schemes begin to taper off. Ultimately, successful businesses adapt and there will be significant opportunities post pandemic for profitable, invested business which have the correct funding structure and the right customer offering.

We have seen first-hand the resilience shown by businesses within the sector and the desire to do what is needed to get through this very challenging period.

HERE AT BDO NORTHERN IRELAND WE ARE COMMITTED TO HELPING THE LOCAL HOSPITALITY INDUSTRY AND WE LOOK FORWARD TO BRIGHTER TIMES AHEAD WITH YOU.

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RE-THINK AND RE-START: UNDERSTANDING YOUR FINANCIAL OPTIONS

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Cash : Government Backed Loans : Debt Repayment Options

Cash is King

With many businesses in the hospitality sector fighting for survival, the need to manage cash flow is more important than ever. We recognise that as businesses re-open, cash reserves, which are already depleted, will come under even more pressure.

The funding options highlighted below are the traditional ways to improve liquidity, however, we have also detailed some additional avenues of support which have arisen following the Pandemic.

Government Backed Loans

As part of Rishi Sunak's statement when delivering his budget, he compared the state of the economy and its debt burden to "wartime levels". Public sector borrowing in the UK has now exceeded £2 trillion for the first time in history and with further support measures extended to businesses, this level will continue to rise for the foreseeable future.

The level of financial assistance over the last year has been unprecedented, with over £75bn worth of Government backed loans approved and payments of over £57bn made to employers via the Job Retention Scheme. Along with business support grants and other reliefs, this intervention has protected millions of jobs and businesses across NI and the UK.

Over 1.6m businesses have obtained a Bounce Bank or CBILS loan in the last 10 months, with average loan sizes across the 2 schemes of £30k and £238k respectively.

	Cumulative number of approved facilities	Cumulative value of approved facilities	Cumulative number of applications
Bounce Back Loan Scheme (BBL)	1,531,095	£46.53bn	2,056,587
Coronavirus Business Interruption Loan Scheme (CBILS)	98,344	£23.28bn	233,247
Coronavirus Large Business Interruption Loan Scheme (CLBILS)	716	£5.30bn	1,130

Source: Gov.uk – Loan Schemes – Cumulative Applications and Approvals to close of business on 21 March 2021

Debt Repayment Options

As the 12-month capital and interest moratorium comes to an end on these Covid-19 loans, many businesses which remain closed, with little to no income, will be increasingly anxious about how these obligations can be repaid on top of any other creditor commitments that they have.

Existing Lenders

We have found through our client involvement that lenders are keen to work with existing borrowers and to build upon trusted relationships. However, key to this ongoing support, an operator needs to demonstrate that they have availed of all other sources of income, have minimised costs and have a clear strategic plan in place.

Alternative Lenders

Where existing high street lenders are not able to provide additional loan support, we are seeing other alternative funders, with a higher risk appetite, looking at opportunities to lend under the Government backed schemes. Provision of an up to date cash flow model is key for any alternative lender to consider as part of a new funding application.

Pay As You Grow Scheme

The Pay As you Grow (PAYG) scheme which is specific only to Bounce Back loans provides a range of options to manage repayments over an extended period; including:

> extending the length of the loan;

> maintaining interest only payments, available up to 3 times over the term of the loan; or

> availing of a one-off payment holiday for up to 6 months

New Recovery Loan Scheme

A new Recovery Loan scheme is to be launched on 6th April 2021, which will replace the above COVID"19 loan schemes. Whist the proposed scheme does not appear to be as flexible as the previous loan schemes, with interest and fees to be met by borrowers immediately, it is certainly welcome that the Government continues to offer ongoing support to businesses via guaranteed loans administered through lenders.

With all debt situations, dealing with the issues early and communicating with lenders/ creditors head on are the keys to resolving situations quickly and avoiding an escalation.

Other Creditor Pressure

Through our work with the Hospitality Industry Response Group, we are aware of the ongoing cost of closure, with bars and restaurants incurring fixed costs up to £20k per month, increasing to over £100k per month for larger hotel operations.

In addition to the repayment of loans, other costs/key stakeholders that need to be carefully managed as businesses start to re-open include: Tax Liabilities, Trade creditors and Rent payments:

HMRC

On 23 February 2021, the Government opened its instalment payment plan for VAT payments, which were originally due between March & June 2020. Businesses that have not already paid their VAT for the deferral period can either pay in a lump sum by 31 March 2021, or opt into the instalment plan and pay over an eleven-month period between March 2021 and January 2022.

With businesses still closed, some may have difficulties making the initial payments under the scheme and the idea of waiting until the summer when trade may have picked up could be attractive.

HMRC is also continuing to provide support through the Time To Pay scheme, with tax deferments typically between 3 and 12 months, dependant on the situation. In our experience, HMRC does not require detailed cash flows to be presented, but it is critical to ensure supporting facts and documentation are available to evidence trading difficulties. It is also important that businesses demonstrate that all other sources of finance have been sought before relying on HMRC to effectively fund working capital.

Trade Suppliers

Working with food and drink suppliers is obviously key for any recovery plan as ongoing support will be required for new stock orders. The lack of dates within the Executive's Road Map places further uncertainty on the timing of orders and stock management, as operators try to pre-empt opening dates, the level of ongoing restrictions and overall demand.

Landlords

With Government restrictions limiting landlord's ability to enforce on rent arrears during the pandemic, Landlords have had

to work with tenants, often agreeing rent moratoriums or reduced payment terms, with a view to extending out their lease term.

With these enforcement restrictions now extended to the end of June 2021, tenants should ensure that any agreements that have been made that are outside the original terms of their lease are documented in writing, so as to limit any action from being taken once the landlord restrictions have been lifted.

Return to Trading

With the UK savings ratio increasing 3 fold in the 3 months to September 2020, combined with a level of pent up demand for social interaction, we are hopeful that the economy will rebound quickly. However, with ongoing restrictions likely to be in place for the short to medium term, all avenues of funding will need to be considered to ensure a successful return to trading.

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RE-THINK AND RE-START: RESTRUCTURING TO FACILITATE RECOVERY AND FUTURE GROWTH

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Many businesses in the hospitality sector will likely exit lockdown with over-leveraged balance sheets and restricted access to liquidity, thus requiring them to consider restructuring options. Now more than ever, it is crucial that businesses have a strategic plan in place and that any restructure of operations needs to align with this plan if it is to facilitate recovery and future growth.

Restructuring Options

As mentioned in my previous article (Rethink and Restart: understanding your financial options), the main liabilities on the balance sheets of businesses in the hospitality sector will be the build-up of rent arrears, debts to HMRC and secured lending (including Bounce Back loans, CBILS or CLBILS).
When informal payment agreements or increased credit terms are no longer viable with key stakeholders, some operators may be feeling that the only option is to throw the towel in. However, there are options to be considered before then.

Where trading is viable, save for the cash flow pressures arising from COVID 19, we have seen first-hand the benefits of various restructuring techniques to preserve a business and facilitate continued trading.

Company Voluntary Arrangements (CVA)

A popular tool for restructuring a business, with a significant leasehold estate and substantial creditor arrears, is a Company Voluntary Arrangement (CVA).

This rescue tool allows a company to make proposals to it's unsecured creditors; to effectively compromise their claims. The arrangement can extend up to 5 years, with an acceptable pence in the £ dividend agreed.

The reinstatement of the Crown Preference from 1st December 2020 (relating to certain tax arrears including; PAYE, VAT and employers NIC's) will likely impact on the number of CVA's approved as you cannot compromise a preferential creditor's claims without their consent. HMRC, in our experience, takes some persuading to compromise any claims and will typically include additional stipulations within the CVA proposal.

Administrations

In the past year, there has been a number of Pre-pack Administration sales, whereby a company is marketed through an accelerated M&A process, with the business sold immediately upon appointment of Administrators.

Whilst high profile Pre-pack sales including; Carluccio's, Byron Burger and Prezzo grab the headlines, Pre-packs are also used by smaller SME businesses.

Their popularity stems from a number of perceived advantages over other insolvency procedures.

For example, they can be fast and cost-effective, with limited court involvement, and are often the best way to preserve jobs and the business as a going concern.

They can also avoid the loss of value in the business due to insolvency, and allow businesses to select their profitable leasehold properties, with other onerous commitments being left behind in the insolvent company. However, the process has faced a great deal of scrutiny over the potential for a lack of transparency. New Pre-pack legislation is being introduced later this year to address these concerns.

Corporate Insolvency and Governance Act (CIGA)

Newer options for hospitality can be found in the Corporate Insolvency and Governance Act (known as CIGA), which came into effect on 26 June 2020.

This recent legislation was fast-tracked as a result of the pressing need to support UK businesses in light of extensive COVID 19 disruption. CIGA introduces a number of powerful measures to improve the potential for distressed companies to survive, stabilise and grow.

Protection from creditors for viable companies:

A standalone moratorium can be obtained that leaves the directors in charge of delivering a solution (under the supervision of a qualified 'monitor') while providing a standstill from a wide range of historical obligations. The key issue with this measure is that certain liabilities including rents need to be met as they fall due during the period of the moratorium.

A new debtor-led compromise procedure:

The 'restructuring plan', which is modelled on a scheme of arrangement provides greater flexibility, including the power to deal with dissenting creditors if the proposal presents a viable restructuring solution.

Protection from supplier disruption:

This reform prevents suppliers of goods or services to an insolvent company from terminating or amending their contract for supply. This is on the basis that the insolvent company continues to pay for goods under the terms of the contract.

The greatest barrier to an optimal outcome is often time.

The new measures under CIGA afford companies enhanced scope to develop and deliver structured turnaround plans with an increased opportunity to drive operational and financial restructuring.

These reforms represent one of the biggest changes to the UK's restructuring and insolvency legislation for many years. The measures go to the heart of many of the components of a successful turnaround, including encouraging early engagement with stakeholders and an acknowledgement that reaching out for support should not mean having to give up control.

The new moratorium allows strong boards with credible plans to act early and drive company rescue, supported by turnaround professionals with the right situational experience.

One of the most high-profile uses of the new legislation was that of Pizza Express. Here a restructuring plan effected a major financial recapitalisation and de-leveraging, together with a CVA to effect an operational restructuring of its leasehold liabilities.

More widespread use of the new legislation has been delayed as a result of the Government's continued support measures, particularly with regard to the restrictions on enforcement action by landlords.

Consider all Options and Take Advice Early

As we re-start trading, more business owners will need to explore all of the options available to them, which will likely vary dependant on the specific circumstances of each business. We would recommend that professional advice is taken as early as possible as it provides a business with greater time to implement a solution.

HAVING WORKED WITH MANY HOSPITALITY BUSINESSES OVER THE LAST 30 YEARS, WE AT BDO NI ARE PROUD TO SUPPORT THE SECTOR AND WE WILL CONTINUE TO WORK ALONGSIDE YOU ALL TO ENSURE THAT THE INDUSTRY RETURNS EVEN STRONGER IN THE FUTURE.

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BDO NI SECTOR EXPERTISE

We at BDO NI are proud to be considered one of the leading advisers to the hospitality sector, blending sector knowledge and experience, with practical and objective advice. Our aim is always to make a positive difference to our client's plans.

With a full service offering across advisory, tax and audit, our industry specialists provide expertise that is focused on their businesses and on resolving the unique challenges that arise within this sector. With a focus on the SME market, we frequently advise entrepreneurial businesses as they grow.

BDO NI has a long standing relationship with Hospitality Ulster, to whom we are a trusted service provider.

ADDED VALUE

We know who is doing what in the market and we are able to benchmark our client's businesses and provide information on current trends and issues over and above our competitors.

With our dedicated advisory team, bolstering our audit and tax services, we are able to advise hospitality businesses across the board.

As thought leaders across the sector, we offer commercial and technical updates, specifically tailored to hospitality businesses. We also have a well-established network in the industry that spans finance directors, suppliers and advisers, and we are always happy to use this to our client's advantage.

CLIENTS

Our hospitality sector clients cover a wide range of businesses and include:

> Publicans;

> Restaurateurs;

> Hoteliers (of both individual hotels and hotel groups);

> Event operators; and

> Tourist attraction operators.

OUR ADVISORY SERVICES

We can offer tailored advice and assistance in the following areas:

> Liaison with creditors, including suppliers, landlords, HMRC and the banks;

> Development of Business Strategy;

> Assessment of options for businesses;

> Preparation of funding applications;

> Review/Preparation of Cash flows;

> Tax Planning;

> Accounts preparation and Audit;

> Objective Advice to business owners/ directors.

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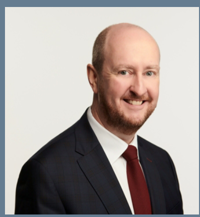

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