

The suffering of many travel companies is increasing rapidly

The consulting firm [Hitz & Partner Corporate Finance AG](#), which is specialized on the tourism industry, does not limit itself exclusively to M&A transactions, but also advises companies in the area of restructuring in the current crisis. Stephan Hitz and Cédric Diego Vollmar talk in an interview with [Travelnews](#) about the extraordinary market situation and ways of restructuring.

Mr Hitz: How do you assess the last few months for the tourism industry?

Stephan Hitz: The travel industry has flourished in recent years, but with low profit margins in the lower single-digit range. Since the lockdown at the beginning of March 2020 and the global travel restrictions, sales have almost completely collapsed. What remained was the great uncertainty and the associated rebooking and reimbursement of customer advance payments. It is commendable that the Swiss Federal Council reacted very quickly to the extraordinary situation with measures such as compensation for short-time working and other support measures, thereby also buying the travel industry some time. In respect of the COVID credit, it must be said that the Swiss Federal Council's rapid implementation was probably unique in the world and was also copied by some states. This was certainly a positive step to help the economy quickly after the hard lockdown.

However, the support for owners in employer-like employment was only valid for a short period of time until the end of May 2020, which is surprising. According to the Swiss Travel Agency Association [SRV-Factsheet](#), 88 per cent of the 1,300 travel agencies are independent. Around a third employ just three to four staff including owners and their partners. They are severely affected by this, even though SME-operated companies form the backbone of the Swiss economy and their freedom of choice is severely restricted by state-imposed measures. It is therefore incomprehensible that employer-like employees were again prematurely excluded from any compensation for such short-time working, contrary to earlier announcements by the Swiss Federal Council. This tugs at the equity capital substance of a company and raises the question of concerns about possible over-indebtedness, especially in owner-managed SMEs.

Obviously, many SME's are now facing a mountain of problems. What impact is the current situation having on corporate finance and mergers & acquisitions? Have there already been many deals this year or are there more of them now?

Stephan Hitz: Before the lockdown there was a lot of activity and numerous international transactions within the travel industry were successfully completed, such as the management buyout of Müller-Touristik in Germany or the takeover of the former specialists of TUI AG, namely [Berge & Meer](#) and [Wolters Reisen](#), or the sale of [Ameropa-Reisen](#) by Deutsche Bahn to a financial investor. Following the announcement of the lockdown, current transactions worldwide, and not only in the travel industry, were immediately put on hold or cancelled altogether, among others the already announced merger between Globalia and Barcelo in the Spanish market or the takeover of [Cruiseline](#) (Monaco based OTA) by a financial investor. More recently, we have again seen isolated transactions such as the complete takeover of Silversea Cruises by Royal Caribbean Cruises in July 2020, or the recently announced IPO of Airbnb, which is scheduled for the second half of 2020.

The suffering of many companies is currently increasing rapidly. Globalia is in ongoing discussions with IAG regarding [Air Europa](#). To what extent an emergency sale can be achieved in the current situation will be observed in the coming months. In the area of "distressed M&A", some companies worldwide will probably still need to be merged, thus accelerating consolidation.

From a buyer's point of view, the current situation could probably not be better for making favourable takeovers. Is that so?

Cédric Vollmar: In the current market environment, there are numerous takeover opportunities, as it seems that even well-established companies are in serious trouble because of COVID-19. The outlook, especially in the travel industry, is therefore subject to many uncertainties which a buyer should carefully consider when evaluating potential takeover candidates. In this respect, a so-called buyer's market has developed. A low purchase price does not mean a favourable takeover. For a buyer, the uncertainties of the market are particularly difficult to assess in such a special situation. It is currently uncertain how business will develop over the next 12 to 18 months and thus how to evaluate the COVID-19 impact. Anyone entering the market now must expect that further refinancing may become necessary.

"As far as travel restrictions are concerned, global rules of the game should be drawn up and implemented wherever possible".

What do you think are the biggest uncertainties now?

Cédric Vollmar: There are two levels: on the one hand, the hope for an early vaccine and the uncertainty of whether and when it will come. On the other hand, the political environment with the uncertainties of permanently adapted entry restrictions or quarantine regulations. Particularly with regard to travel restrictions, global rules of the game should be drawn up and implemented as far as possible, which would have a positive effect on planning for all market participants in tourism.

The next 12 months will be very difficult for many companies in the travel industry. What recommendations do you have for travel agencies and tour operators?

Stephan Hitz: Over the past few months we have had numerous discussions with companies within and outside the travel industry. Basically, the managers of all companies must carefully examine their specific options for action. This begins with short and medium-term liquidity planning, the introduction of necessary cost-cutting measures, the adjustment of the business model and the analysis of realistic options. We believe that many companies will need to strengthen their capital base over the next 12 months. In Switzerland, particular attention must be paid to this, especially if half of the share capital and legal reserves are no longer covered. In this case, the Board of Directors must immediately propose reorganisation measures to the shareholders. Possible COVID-19 loans do not have to be considered as debt for the calculation of the coverage of capital and reserves and the calculation of over-indebtedness until 31 March 2022. However, in the case of a COVID-19 loan, it is necessary to carefully examine whether one wishes to claim it. Repayment must be made within five to seven years and severely restricts entrepreneurial freedom, for example when paying dividends.

Before any restructuring measures are initiated, we recommend that the concrete measures be carefully examined from an operational, financial and tax perspective. In each individual case, it is necessary to decide to what extent a continuation of the company, or an orderly transfer or liquidation of the business activities is possible and reasonable. We would classify the recently announced takeover of customers and staff contracts by DER Touristik Suisse as an orderly handover. Genuine

restructuring measures such as the injection of new capital are appropriate where the continuation of a company is secured in the mid- to the long-term. The agreed purchase price then generally flows into the company to be restructured and only secondarily to its owner. The valuation before and after the corresponding capital increase is of particular importance, i.e. the capital dilution of previous ownership.

Doesn't it seem unrealistic to find a rescuing arm of an investor in these difficult times? Are there any willing investors at all who look to the travel industry?

Stephan Hitz: The starting position is certainly not easy. Nevertheless, we are in talks with various investors who still want to invest in exciting projects, but in companies with sustainable, medium-term prospects.

Is this the typical moment when Hitz & Partner becomes active to help a company find investors?

Cédric Vollmar: We see ourselves not only as an M&A advisor in good times, but also as a consultant in the current difficult market situation where many companies need help and external know-how. We are happy to be at their disposal and try to contribute our professional knowledge and experience, especially in this crisis-ridden industry, in order to develop and implement the most realistic basis for decisions for the shareholders in the best interest of the company.

What would you say to an investor from outside the industry who is considering entering the tourism market? Which tourism sectors and types of business will grow again in the foreseeable future?

Cédric Vollmar: Even in ordinary times, we are observing in the respective markets that only few non-industry financial investors are investing in the travel industry at all. This is due to low profit margins and high market volatility due to numerous extraordinary events and increasingly pandemics. In our view, mobility and sustainable tourism still have enormous growth potential in the mid- and long-term. It should not be forgotten that tourism is one of the most important economic sectors and employers worldwide, with a GDP of around 11 percent. For this reason, numerous investors will continue to invest regularly in the travel industry in innovative business models with attractive cash flows.

"Sustainable tourism still has enormous growth potential in the medium and long term".

What global changes do you expect in the tourism business? What changes do you expect in the tour operators, hotel industry and airlines?

Cédric Vollmar: Based on the current situation we expect an accelerated consolidation of all sub-sectors. In the Swiss market, consolidation has already largely taken place in the tour operators. The hotel industry has been under constant price/performance pressure for years and, as is well known, is increasingly competing with alternative "shared-economy" business models. This is one of the reasons why there are currently over 200 hotels for sale in Switzerland alone. Internationally, the large hotel chains are likely to experience additional consolidation. The continuing international travel restrictions and the ongoing climate debate are accelerating the debate on travel behaviour. Considering the existing overcapacity, airline consolidation will become inevitable, see for example the merger talks between Condor and Tui Fly. Some airlines which find themselves in an even more difficult situation are likely to follow suit.

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