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IHF Finance and Banking Webinar

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Audit | Tax | Advisory

Hotel Cash Flow Review - Introduction

- 6 months into Covid-19 - balance sheets are strained
- SBCI offers a release valve to plug funding gap created
- What's needed to repair the balance sheet and supplement business cash flows
- Time horizon - 24 months so 4 -6 year facility allow a means to survive and repay the loan

Hotel Cash Flow Review - Introduction

- Align funding request to expected return to profitable trading
- Get working capital to a level that sustains the business through Covid-19
- Decide on tax warehousing strategy
- Work out the SBCI loan requirement

Cash Flows to Support Funding Application - What help is needed?

- **Opening working capital (net current assets) - strained position**
- Injection of funds to bring current working capital to sustainable level

Deficit/Surplus for trade - Seasonality factors on top of Covid-19	
Q4	Loss
Q1	Loss
Q2	Breakeven/profit – return to profit when?
Q3	Profit

- Capex – Why is it needed, what it achieves, and why now?
- Redundancies cost
- Tax warehousing - Transfer to non current liability category
- Loan/leasing principal - Extend the term of these facilities
- **Closing working capital - At level to sustain the business**

Determine SBCI Loan Requirement to Repair the Balance Sheet

	Sept 2020 – Strained €k	Dec 2020 – Fixed €k
<u>Current Assets</u>		
Stock	40	35
Debtors	30	25
Cash and Bank	20	95
Wages Support Scheme	0	30
	90	185
<u>Current Liabilities</u>		
Trade Creditors	120	70
Rates/Rent	15	0
Vat/ Payroll taxes	120	40
Leasing	40	20
	295	130
Net current assets/ (liabilities)	-205	55
<u>Non Current Liabilities</u>		
Leasing	40	60
Warehoused taxes	0	80
SBCI term loan	0	160
	40	300
Total	-245	-245

Determine SBCI Loan Requirement

SBCI Loan Summary	€k
Repair balance sheet	160
Q4 - loss support	30
Q1 - loss support	30
Future Capex	20
Redundancy	50
Total SBCI loan required	290

Cash Flow Preparation – Do the Analysis Work First

- Covid-19 determine impact on revenues
- Consider how reduced revenues impact on efficiency
- Factoring higher cost caused by Covid-19
- Establish attainable gross margin during Covid-19 trading
- Prepare payroll cost budget
- Highlight cash flow benefit of EWSS
- Prepare overhead budget using 2019 figures as benchmark

Cash Flow Preparation – Do the Analysis Work First

Do Scenario Analysis:

- Cash burn if forced to close
- Lost of profit if revenues are 10% below expectation

2019 Revenues and Margin Before Being Stressed for Covid-19

2019 Actuals - How performed pre Covid-19

Revenues and Margin - 2019	
ARR €	115
Occupancy	71%
No of Rooms	75

	Revenues €k	Direct costs %	Direct Costs - €k	Gross Margin €k
Rooms	2,235	10%	224	2,012
Food	1,639	34%	557	1,082
Beverage	921	33%	304	617
Other	385	23%	89	297
	5,181		1,173	4,007
Gross Margin excluding payroll				77%

2021 Expectations for Trading Through Covid-19

2021 Business Model- Margin Reduction

Revenues and Margin - 2021	
ARR €	85
Occupancy	57%
No of Rooms	75

	Revenues €k	Direct costs %	Direct Costs - €k	Gross Margin €k
Rooms	1,326	14%	186	1,141
Food	1,147	36%	413	734
Beverage	645	35%	226	419
Other	270	28%	76	194
	3,388		900	2,488
Gross Margin excluding payroll				73%

2019 Payroll Cost and Seasonality

2019 Actuals - How performed pre Covid-19

Payroll Cost	Total	Q4	Q1	Q2	Q3
Revenue €k	5,181	1,036	777	1,295	2,072
Payroll €k	1,943	425	342	492	684
Payroll Cost %	37.5%	41%	44%	38%	33%

2020/2021 Payroll Cost and Benefit of Wage Support Scheme

2020/2021 Projections

Payroll Cost	Total	Q4	Q1	Q2	Q3
Revenue €k	3,388	678	508	847	1,355
Payroll €k	1,605	352	280	390	583
Payroll Cost %	47.5%	52%	55%	46%	43%
Payroll TWSS/EWSS		100	75	0	0
Revised Payroll	1,429	252	205	390	583
Revised Payroll %	42%	37%	40%	46%	43%

Change from TWSS to EWSS on 1st September

Scenario	EWSS	TWSS
Employees	50	50
Subsidy per week	203	350
Weekly payment	10,150	17,500
Payment frequency	Monthly	Weekly
Less generous support impact	7,350	
Impact on cash flow to first EWSS receipt	71,050	

Other Issues:

- Tax clearance cert required
- Revenues down 30% in H2 2020 v H2 2019 - self declare and exit if not qualify
- Potential clawback

Projected Overhead Benchmark of 2019 Levels

Estimate future overhead cost based on 2019 levels

	Total 2019	Total 2020/2021
Revenue	5,181	3,388
<u>Non Payroll Overhead</u>		
Admin and General	363	290
Sales and marketing	130	104
Utility	119	95
Property Operations	124	99
Total	736	589
Overhead - non payroll	14.2%	17.4%
<u>Fixed Costs</u>		
Insurance	100	100
Rates	96	96
Other	74	74
Total	270	270
	5.2%	8%

Cash Flow Comparison 2019 Against Future Cash Flow

Comparison of 2019 actuals to future projections

	Total 2019	Total 2020/2021
Revenue	5,181	3,388
Direct Costs excluding Payroll	1,174	901
Total Payroll	1,943	1,429
Overhead - non Payroll	736	589
Fixed Costs	270	270
Profit before finance/rent	1,058	200
EBITDA %	20%	6%
Capex	150	75
Leasing Capital	40	20
Loan Interest	160	160
Net funds from operations	708	-55

Seasonality Impact on Profit and Cash Flow

	Total 2019	Q4	Q1	Q2	Q3
Revenue	5,181	1,036	777	1,295	2,072
Profit before finance/rent	1,058	125	8	258	667
Capex	150	38	38	38	38
Leasing Capital	40	10	10	10	10
Loan Interest	160	40	40	40	40
Net funds from operations	708	38	-80	170	580

Seasonality Impact on Profit and Cash Flow

	Total 2020/2021	Q4	Q1	Q2	Q3
Revenue	3,388	678	508	847	1,355
Profit before finance/rent	200	31	-46	18	198
Capex	75	19	19	19	19
Leasing Capital	20	5	5	5	5
Loan Interest	160	40	40	40	40
Net funds from operations	-55	-33	-110	-46	134

Scenario Analysis

Downside Scenarios

Closed for 1 week - Cash burn is

Unavoidable overhead	€17k per week
Other Cost	€6k per week
Total cash burn	€23k per week

Revenue down 10% - Profit impact

€88k over the year

What buffer is required?

Scenario Analysis

Upside Scenarios

Potential for upside

EWSS extended for all 2021	€250k over the year
Rates waiver 2021	€96k over the year
Revenue increase by 10%	€88k over the year

Other potential upsides

Corporation tax refunds

Potential for reduction 13.5% VAT rate

Other grants that become available



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