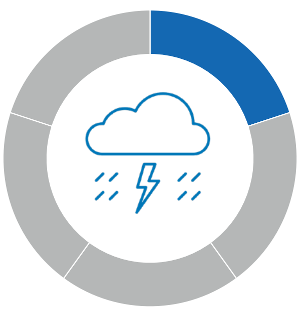
Five Rules of Thumb

Crisis Management for Hospitality Executives

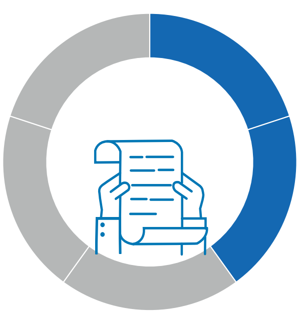
No one knows what the future holds for the leisure and tourism industries — but we do have lessons from prior crises that may prove instructive as we navigate this one.



1. Liquidity Planning: Make sure you have ample liquidity to weather the storm.

It's widely reported that bulge-bracket private equity firms urged their portfolio companies, particularly those in the hospitality and energy industries, to draw down on their credit lines to prevent liquidity shortfalls (although subsequently denied by said firms). Hilton, in a move way ahead of the curve, borrowed the maximum under its $1.75 billion revolving credit facility as a "precautionary measure," according to its 8K filed on March 5th, despite having significant existing cash balances. Boeing borrowed the remaining balance of its credit facility, $13.8 billion.

Not only having cash, but understanding the "runway," is of critical importance to sustaining an organization through a crisis.



2. Read your credit agreements: Nobody reads them.

Too many investors and senior executives put the loan documents in the drawer. They argue that these are for the lawyers, and sometimes the finance team, to read and understand.

Now is the time to pull them out and read and understand them. Are there tests that the borrower could fail? Are there covenants? Could funds be diverted from certain accounts? Are there extension options that could/should be exercised? What are the rules, covenants and obligations, including recourse obligations, that ought to dictate behavior? Borrowers and lenders who both read and understand their obligations under their credit agreements may be able to prevent disastrous outcomes.

3. Right-size cash flow.

Knee-jerk reactions are to “right-size” (i.e. reduce) expenses. That is a valuable strategy, but more importantly is right-sizing cash flow. Focusing on cash flow means looking at the balance sheet and searching anything related to credit — receivables, current assets, payables, cash in reserves, etc.

Of course, it’s important to have a sustainable, long-term business model, but a crisis may force one to look at primarily at the immediate future. Strike a balance, but don’t only focus on expenses — there may be opportunities elsewhere.

4. Be part of the solution, not part of the problem.

Lenders often look to borrowers for help in navigating a crisis. Borrowers who are transparent, are educated as to the facts and can articulate a plan should be part of a solution. Alternatively, borrowers who are unresponsive, unclear, uneducated and have no plans are generally part of the problem. Lenders will look to get those borrowers out of the way when finding solutions. Cooperative, open, productive communications will get you further with lenders.

Also remember: a crisis is short-term; your reputation is long-term.

5. Be flexible, smart and open-minded; listen; be a leader.

Thirty years of crisis management experience has shown FTI that many businesses underestimate the severity and duration of problems like COVID-19 and end up doing too little, too late.

It’s easy to navigate the ship in calm waters — it’s much harder in turbulent seas and times. Your colleagues, clients, borrowers, guests and family look for leadership in times of crisis. Be a leader. Get the facts. Be decisive. Have a plan. Lead. Great leaders are born in crises — think Roosevelt and Churchill.

Be calm and carry on.

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