

## News release

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### **Ernst & Young survey finds major global hotel operators refocusing operations, fortifying cash positions to navigate downturn and position for future growth**

NEW YORK, NY – APRIL 7, 2009 – Hotel owners and management companies are accelerating efforts to fortify cash positions in a bid to survive the current downturn and to strategically position their businesses for mid-term and long-term growth, according to a survey by Ernst & Young LLP.

"Many hotel enterprises have identified and continue to identify ways to more closely manage costs. They are intensifying their focus and practices around risks and controls, with an objective of emerging from the current downturn stronger. Those that are effective will remain competitive in the short-term, and will attract more capital and accelerate their growth in the next up-cycle," says Michael Fishbin, National Director, Ernst & Young LLP Hospitality Services Group.

According to the Ernst & Young survey, decreasing guest demand and increasing attrition of booked business is the greatest anticipated business challenge cited by hotel executives during the next 12 months of operations. In response, Fishbin says, companies are refocusing their attention on the guest experience, such as heightening attention to attract and serve priority customers and accounts. "Exceptional companies in the hotel sector also recognize the importance of travel blogs and other web-based resources in influencing travel decisions, especially among younger generations, and they continue to look into creative ways to brand the guest experience to generate demand, such as by implementing green initiatives and social responsibility programs," he adds.

As of February 2009, three quarters of the respondents indicated that from a financial perspective, their companies are "performing" (meeting their budgets). As lodging industry fundamentals deteriorate over the next few months, Fishbin expects more businesses to feel the stress of decreased revenues. Only 7% of those surveyed indicated that their businesses were undergoing restructuring while 11% were "stressed" and 7% were "underperforming."

"Given the depth of the downturn and the need to provide investors and lenders with a sense of comfort, it is critical that companies that own and operate hotels regularly stress-test their hotel property portfolios to ensure they can proactively consider the impact of varying economic scenarios and assess strategic alternatives," Fishbin says.

This is particularly important in light of the fact that respondents were quite pessimistic about the outlook for revenue per available room (RevPAR) growth in 2009. (RevPAR is a key ratio used to measure financial performance among hotel businesses.) Eighty-five percent of those polled expect negative RevPAR growth for the year.

The survey of global hotel enterprises, varying in size from less than US\$150 million to more than US\$600 million in revenues, was conducted between December 2008 and February 2009. Key findings include:

#### **Cost management**

- All of the businesses surveyed currently employ labor management techniques such as, hiring freezes, layoffs and reductions in paid working hours as a primary cost management strategy, indicating that employment in the hospitality sector is likely to be affected.

#### **Capital strategies**

- Thirty-three percent of respondents indicated that they plan to raise fresh capital in 2009 with a further 38% planning to seek capital in 2010-2012.
- During the economic downturn, more than two thirds of respondents also expect to enter into joint ventures or alliances with other hospitality and capital enterprises to strengthen their businesses.
- Less than 10% of respondents expect to restructure their balance sheets.

#### **Business challenges**

- Fifty-six percent of respondents view decreasing average daily room rate (ADR) as the second greatest challenge to hotel sector businesses behind decreasing demand (82%)

and ahead of increasing transportation costs/declining airline capacity (37%). Other challenges include climbing labor costs, lack of financing and increasing competition.

### **Green initiatives**

- The vast majority of respondents currently implement recycling programs in their hotels (81%) and use energy saving technology (88%) and, for the most part, those that do not intend to implement recycling and energy savings next year.
- Education and social responsibility programs are also gaining in popularity with 68% of respondents currently operating such programs. An additional 20% plan to implement such programs within the next 12 months.

Survey results from *Exceptional Enterprises in the Hospitality Sector* are available online at [www.gallen.com](http://www.gallen.com).

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