Hospitality M&A – Lodging Industry Consolidation Trends

2018 was yet another banner year for lodging M&A. Numerous high-profile transactions were recorded such as the recent acquisition of Belmond by VMH Moët Hennessy Louis Vuitton for $3.2 billion, Hyatt's acquisition of Two Roads Hospitality, Jin Jiang's purchase of Radisson Holdings (including Radisson Hotel Group), Wyndham's acquisition of La Quinta and Accor's buying spree picking up Mövenpick Hotels & Resorts, Atton Hotels, 50% stake in SBE Entertainment and 21c Museum Hotels.

The fundamentals have not changed much over the past couple of years. Continued industry fragmentation (the top brands only account for approximately one third of hotel rooms globally) coupled with low RevPAR growth environment (2.9% in 2018) – limiting organic growth – and the need to create value has made hotel brands and operators seek for consolidation opportunities. For hotel brand operators, a merger with/acquisition of another brand represents the prospect of a larger distribution platform, broader customer base and offering, expanded loyalty programs, integration synergies (i.e., cost reduction) and further expansion of their asset-light strategy through the leverage of scale. On the same note, hotel owners generally realize the benefits of such transactions too, whether in the form of lower distribution costs (i.e., increase production from brand channels vs. OTAs) or improved pricing from suppliers through the procurement of more favorable terms, to name a few. The aforementioned is clearly not without its challenges as a higher number of competing hotels from the same brand family clutter local markets and radius restrictions become a hot topic of HMA (Hotel Management Agreement) negotiations.

For third-party management companies, strategic acquisitions of smaller industry players trigger a somewhat different set of value drivers (addressed below). Unlike hotel brand operators, third-party managers do not sell franchises, or offer access to loyalty programs or a vast distribution platform. Further, third-party hotel management services have become increasingly competitive which challenges organic growth. Hence, beyond financial performance, a stronger focus is placed on ownership mix, length of HMA term, contract churn, retention and re-link.

The high-levels of M&A activity are expected to continue well into 2019 but rather than attempting to become bigger, hotel brands and third-party management companies will seek transactions that provide a strategic edge whether to fill a segment void or improve geographic presence. As such, during the first three months of the year we already saw companies such as Best Western entering the upper upscale and luxury segments through its acquisition of WorldHotels and InterContinental Hotels venturing into wellness after it acquired Six Senses Hotels, Resorts & Spas. This is much similar to Hyatt's expansion of its luxury offering via its acquisition of Alila (which is primarily present in Asia) or the independent/lifestyle segment via Joie de Vivre, both through the acquisition of Two Roads Hospitality.

Capital players such as PE firms and sovereign wealth funds continue to seek for acquisition opportunities that extend beyond single asset purchases and into operating platform. Interestingly, this comes as no surprise given the healthy exit multiples that these buyers may be able to realize once the performance of the individual hotels has been improved and the target has realized the identified synergies – which in our experience have the potential of increasing EBITDA by 2x – allowing the owners to spin off the OpCo and create yet another valuable asset to be sold.