

M&A in Travel & Tourism

Changing financial positions of travellers have fuelled recent M&A activity

MarketLine Case Study

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1. Overview

1.1. Catalyst

In the first six months of 2021, M&A deal value in the T&T sector totaled \$84bn, up 82.6% from the same period of the previous year. Q1 2021 saw 189 deals with \$26bn total deal value, which is a 16.1% drop when compared to Q1 2020. However, global M&A deal value recorded a 123% increase in Q2 2021, which was the highest quarter-on-quarter growth percentage over the last five years.

1.2. Summary

The key themes of premiumization and indulgence, the sharing economy and lowcost evolution have driven M&A activity in H1 2021 due to the pandemic impacting travelers' financial positions. According to GlobalData's Q2 2021 Consumer Survey, when global respondents were asked if they were concerned about their personal financial situation, 15% stated that they were 'not concerned'. Although this is still significantly less than the 31% that stated they are 'extremely concerned', it means that potentially three in twenty of the global travel market could be financially unaffected by the pandemic and may have even become wealthier during this period. This has driven high value deals such as the Star Entertainment Group merger with Crown Resorts. As already stated, 31% of global consumers said that they are still 'extremely concerned' about their personal financial situation, this has driven deals that involve the themes of the sharing economy and low-cost evolution. The Blackstone and Starwood Capital Group acquisition of Extended Stay America (ESA) is an example of this.

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2. The value of M&A deals increased by 83% in H1 2021

In the first six months of 2021, M&A deal value in the T&T sector totaled \$84bn, up 82.6% from the same period of the previous year. Q1 2021 saw 189 deals with \$26bn total deal value, which is a 16.1% drop when compared to Q1 2020. However, global M&A deal value recorded a 123% increase in Q2 2021, which was the highest quarter-on-quarter growth percentage over the last five years.

2.1. Changing financial positions of travelers have fueled recent M&A activity

The key themes of premiumization and indulgence, the sharing economy and lowcost evolution have driven M&A activity in H1 2021 due to the pandemic impacting travelers' financial positions. According to GlobalData's Q2 2021 Consumer Survey, when global respondents were asked if they were concerned about their personal financial situation, 15% stated that they were 'not concerned'. Although this is still significantly less than the 31% that stated they are 'extremely concerned', it means that potentially three in twenty of the global travel market could be financially unaffected by the pandemic and may have even become wealthier during this period. This has driven high value deals such as the Star Entertainment Group merger with Crown Resorts. As already stated, 31% of global consumers said that they are still 'extremely concerned' about their personal financial situation, this has driven deals that involve the themes of the sharing economy and low-cost evolution. The Blackstone and Starwood Capital Group acquisition of Extended Stay America (ESA) is an example of this.

2.2. The T&T M&A market saw 12 deals over the value of \$1bn in H1 2021

The global T&T M&A market saw five, billion-dollar deals in Q2 2021, as compared to seven such deals in Q1 2021. This was two more than the number of billion-dollar deals that took place in H1 2020. One of the most noticeable high value deals that was announced in H1 2021 was the US railway operator Kansas City Southern accepting Canadian National Railway Co's \$33.6bn acquisition offer, which was an amount that exceeded a \$29bn offer from its industry rival Canadian Pacific Railway Ltd. This is outlined in the Q1 transactions table in this report.

2.3. Premiumization and indulgence, and the sharing economy are the top themes driving recent M&A activity

When looking at the most recent M&A activity in T&T in Q2 2021, premiumization and indulgence, and the sharing economy are the driving trends behind several deals. The theme of premiumization and indulgence has driven M&A activity in 2021 due to the increase in demand for premium products. As the pandemic subsides, many travelers will be seeking luxurious and expensive holidays to make up for lost time. Financial situations worsening for consumers has been widely discussed during the pandemic. However, many consumers managed to bypass this financial squeeze and have incidentally become efficient savers or have become even wealthier than before the pandemic. With saved - or increased levels of - cash that has accumulated during this time, some travelers will be planning to spend more than usual on their next trip. According to GlobalData's Q2 2021 Consumer Survey, when global respondents were asked if they were concerned about their personal financial situation, 15% stated that they were 'not concerned'. Although this is still significantly less than the 31% that stated

they are 'extremely concerned', it means that potentially three in twenty of the global travel market could be financially unaffected by the pandemic and may have even become wealthier during this period. A key deal in Q2 2021 that was driven by this trend was the Star Entertainment Group merger with Crown Resorts, worth \$7bn. The Star Entertainment Group is a gambling and entertainment company, which means it very much focuses on the indulgence aspect of this theme. The Star's Chairman, Mr John O'Neill, said that bringing together The Star and Crown would create an estimated AUD12bn (\$8.9bn) ASX-listed national tourism and entertainment leader. In the letter detailing the merger proposal, Star stated that it estimates that a merger with Crown would result in indicative cost synergies of between AUD150m (\$111m) and AUD200m (\$148m) per annum. On the other hand, there will also be an increase in the number of travelers that are looking for low-cost alternatives without compromising on quality. As already stated, 31% of global consumers said that they are still 'extremely concerned' about their personal financial situation. Airbnb and Uber have revolutionized exchanges between buyers and sellers, lowering costs and also providing more authentic experiences for travelers.

The growth of the sharing economy is primarily driven by Generation Hashtag, who are more comfortable with ordering and booking tourism related experiences via apps and online channels. A key deal in Q2 2021 that was driven by the sharing economy trend was the vacation rental distribution channel and metasearch engine, HomeToGo, announcing that it had entered into a definitive agreement to merge with publicly listed special purpose acquisition company (SPAC) Lakestar, in a \$1.2bn transaction. Joining forces with Lakestar to bring HomeToGo to the public markets presents a key opportunity to fuel the next level of growth for the rental company. High quality, multi-purpose and unique vacation rentals will continue to skyrocket in popularity due to the pandemic. According to GlobalData's Q2 2021, 54% of global consumers are still concerned regarding their health and wellbeing, staying in private vacation rentals alleviates some of these concerns as the chances of catching the COVID-19 virus decreases due to not having to enter public spaces.

2.4. The global T&T M&A market saw twelve deals over the value of \$1bn in H1 2021

The global T&T M&A market saw five, billion-dollar deals in Q2 2021, as compared to seven such deals in Q1 2021. This was two more than the number of billion-dollar deals that took place in H1 2020. One of the most noticeable high value deals that was announced in H1 2021 was the US railway operator Kansas City Southern accepting Canadian National Railway Co's \$33.6bn acquisition offer, which was an amount that exceeded a \$29bn offer from its industry rival Canadian Pacific Railway Ltd, which is also outlined in the Q1 transactions table in this report. Canadian National has offered to cover the \$700m break-up fee Kansas City Southern will owe Canadian Pacific Railway Ltd. The company will also pay Kansas City Southern \$1bn if the US Surface Transportation Board (STB) rejects a voting trust structure it has proposed to complete the deal. This deal is driven by the theme of industry consolidation, Canadian Pacific and larger rival Canadian National have been in direct competition to take over the US railroad operator as it would create the first direct railway linking Canada, the United States, and Mexico. This deal would create a dominant player in the North American railway operations industry and help Canadian National Railway Co to emerge in even more robust shape post-pandemic. In May 2021, the US Department of Justice said that Canadian National Railway Co's bid for Kansas City Southern appears to pose greater risks to competition than a rival agreement with Canadian Pacific Railway, as Canadian National Railway is already the leading industry player. The pending deal is now potentially hinging on an upcoming decision in August 2021 from US regulators on whether to approve a voting trust that is considered to be critical for the deal to win shareholder approval. If the US Surface Transportation Board declines the voting trust because of anti-competition worries, Canadian Pacific Railway could enter negotiations again. The smaller company has been firm in its opinion that its deal with Kansas City Southern is the only 'viable merger'.

2.5. Domestic deal volume and value both decreased in Q2 2021, as compared to Q1 2021

Domestic deal volume and value both decreased in Q2 2021, as compared to Q1 2021. An opposite trend was observed in cross-border M&A deals, which saw an increase in both parameters in Q2 2021. A significant reason as to why cross-border deals have increased in deal volume and value in Q2 2021 could be to do with different countries' tourism economies recovering at different rates. With the impact of the pandemic now seeming to substantially subside in particular destinations in Q2 2021 due to successful vaccine rollouts, acquiring companies now feel that investing in countries that are emerging from the pandemic at a swift rate is a safer bet than before. This could help investing companies to gain an even bigger presence in the 'new normal' in destinations that have established tourism products. One destination that has an established tourism product is Dublin. A cross-border deal occurred in Q2 2021 which involved Midwest Holding (based in Switzerland) selling The Moxy Dublin City to The MHL Hotel Collection (based in Ireland).

The hotel benefits from its association with Marriott Worldwide being branded as a Moxy Hotel and is also the first Moxy in Ireland. In recent years, Dublin has become an attractive city break destination domestically and internationally. According to GlobalData City Profiles, total visitation (both domestic and international) to Dublin increased at a rapid CAGR of 31.1% between 2014 and 2018. The Dublin hotel sector was hit hard in 2020 due to the outbreak of the COVID-19 pandemic. Consequently, the occupancy rate in the city stood at 16.1% in January 2021, indicating a sharp decline from 81.9% in January 2020, according to the Dublin Economic Monitor report. However, vaccination rollout in Ireland is progressing well. Ireland's vaccination program is moving from strength to strength and is expected to progress past the point of the UK's soon, according to the Irish Minister for Enterprise, Trade and Employment, Leo Varadkar (quoted on July 28 2021). A strong and quick rollout of the vaccine increases the likelihood of domestic and international tourism reaching pre-pandemic levels quicker in comparison to many other countries. Additionally, The Moxy Dublin City is in an excellent location fronting Sackville Place and Marlborough Street, right in the city center. This means that this hotel is in a prime position to attract domestic and international tourists as they start to return to Dublin.

2.6. Lodging deals dominated T&T deal activity in H1 2021

Car rental followed by online travel sales saw the fastest growth in terms of deal value in H1 2021, as compared to H1 2020. According to GlobalData, deal value in the car rental industry increased by \$13bn in H1 2021. Deal value in the online travel sales industry increased by \$5bn in the same time period. Transaction value in the lodging space only increased by \$1bn. However, this industry still dominated deal activity in H1 2021, with overall deal value amounting to \$25bn. In Q1 and Q2, some of the most important and interesting transactions occurred in the lodging space.

The themes that have driven M&A activity in the lodging industry in H1 have often been at opposite ends of the spectrum, reflecting the varying economic impacts the pandemic has had upon travelers. In broad terms, the pandemic has either worsened or improved travelers' financial situations, which has heightened demand for either more luxurious or low-cost accommodation options. The first M&A lodging transaction we will focus on is driven by the theme of premiumization. In Q1 2021, Ocean Link Partners and Sequoia China proposed a privatization of Zhejiang New Century Hotel Management, with a transaction value of \$902m. The hotel management company is mainly engaged with the midscale to upscale hotel chain business. This acquisition signaled Ocean Link Partners' and Sequoia Capital China's move to enter the upscale hotel market in China specifically. According to GlobalData, total revenue per available room at upscale hotels in China increased at a CAGR of 6.9% between 2016 and 2019, showcasing strong demand for this type of accommodation prior to the pandemic.

China's economy continued its strong recovery from coronavirus in the first quarter of 2021 as the country stated a record annual growth rate - output increased by 18.3% YOY in the first three months of this year. Although economic growth slowed in the second quarter, strong Chinese recovery from the pandemic will mean that domestic demand for upscale hotel offerings will recover at a quicker rate in this destination compared to many other countries in the Asia-Pacific region. The second M&A lodging transaction that will be assessed is driven by the low-cost evolution theme. In Q1 2021, Blackstone and Starwood Capital Group signed a definitive agreement to acquire Extended Stay America (ESA), with a transaction value of \$6.1bn. ESA places a focus on short stay, cheap accommodation that is conveniently located for travelers and workers across America. ESA was mostly insulated from a historically bad year for the global and US lodging industries. In 2020, occupancy rates were 73% at Extended Stay hotels, which was significantly higher compared to 46.9% for all US hotels, according to

GlobalData. The fact that ESA managed to navigate successfully through a pandemic shows that the company's business model is tried and tested, meaning this acquisition is low risk and should be a solid investment.

2.7. Special purpose acquisition companies are becoming involved in more US T&T transactions

Several T&T transactions in Q2 2021 involved special purpose acquisition companies (SPACs). Two notable deals involving US SPACs occurred in this quarter. Lodging company Sonder going public via a merger with SPC Gores Metropoulos was the first and the second was Grab Holdings, the largest ride-hailing and food delivery firm in Southeast Asia, announcing a merger with SPAC - Altimeter Growth Corp. SPACs are companies that are created solely to merge or acquire another business and take it public. Once a SPAC has been funded, it has two years to find an acquisition target or risk being liquidated and see the funds returned to the original investors. For the target company, one benefit is that SPAC deals include a less intrusive IPO process with fewer disclosure requirements. Additionally, public companies typically trade at higher multiples than private companies, so SPACs offer an opportunity for higher valuation. Finally, business owners can often maintain a significant stake in the company, which they cannot do as effectively when taking on private equity in a traditional IPO. Such reverse merger listings have gained popularity as they offer a cheaper and faster alternative to traditional IPOs.

SPACs are constantly evolving as seen with the high-profile transactions involving Sonder and Grab Holdings. In recent times, SPACs have favored smaller companies that have not reached true profitability. Past examples in Q1 2021 include air taxi startups, which need capital to invest in upfront costs for development, but project high future growth rates. Joby Aviation, a US startup that fits this description, is building an electric aircraft capable of making vertical takeoffs and landings inside cities. In Q1 2021, it was announced that Joby Aviation would merge with special purpose acquisition company Reinvent Technology Partners (RTP), in a deal that provides the electrical vertical flight developer with approximately \$1.6bn in cash to carry on developing its offering. Sonder merging with a SPAC will provide the company with additional capital and expertise to accelerate the company's vision.

Together with SPC Gores Metropoulos, Sonder will be able to further capitalize on opportunities within the global lodging market and strengthen its position as a differentiated and disruptive player. Over the next few years, Sonder plans to continue investing in technology and expanding its footprint and product offering to constantly improve guest experience. Grab stated that its decision to merge with Altimeter was driven by a need to find committed, long-term investment partners who shared Grab's values and strategic vision—and little to do with the other benefits that have been stated above. Working with Altimeter gives Grab the opportunity to create a cap table with partners that have stated their commitment to be co-owners of the business and long-term partners. Altimeter committed to a three-year lockup period which demonstrates long-term commitment. This differs from a traditional IPO where investment bankers will often allocate institutional clients that may not be focused on the long-term.

3. Appendix

3.1. Further reading

Travel and Tourism (2021) MarketLine Industry Profile

Cruise Industry: Impact of Coronavirus has been severe and potentially permanent (2020) MarketLine Case Study

Marriott International: Marriott's response to the COVID crisis as the travel and tourism industry struggles (2020) MarketLine Case Study

UK Travel Insurance Industry: Huge pressure on insurers caused by rising claims and falling premiums (2020) MarketLine Case Study

4. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

5. About MarketLine

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