

## COVID-19 RESPONSE

### AlixPartners insights and advice: travel and tourism

March 2020

Seemingly one-off, disruptive events have become constant reality for the travel industry. After the heat wave in 2018 and a weak year in 2019 that saw the failure of Thomas Cook, the travel sector could ill afford challenges for an unprecedented third year running. With the spread of the novel coronavirus across the globe causing companies and consumers to cancel all but non-essential travel, 2020 looks like it could be the biggest challenge to travel companies since the financial crisis.

To manage through this crisis, there are several, critical tactics that travel companies must employ over the next weeks and months if they want to survive.

#### Situation

The coronavirus outbreak impacts the travel and tourism industry harder and with more immediacy than many other sectors. Aircraft have been grounded, and airlines have cut capacity significantly. With the decreasing confidence in the financial strength of companies in the sector, customers are also becoming wary of paying for their annual summer holiday long in advance of travelling.

Given these facts, most travel companies will be stuck with high fixed costs, expensive assets to run, and large capacity commitments in place. While demand for travel has recovered quickly following past crises and despite the many unknowns over the length and severity of the current situation, its geographic reach and duration have the potential to be unprecedented. And after two years of weak profitability and relatively low margins as an industry, particularly in Europe, many companies may lack the cushion to endure this crisis.

While nobody yet knows how long this crisis will last or the full extent of the impact, managing cash, financing, and covenants, as well as rapid cost-out, will be crucial for the survival of many players this time around. Beyond the devastating human impact, the challenge for companies in this industry will be discipline and effectiveness in execution on these matters.

#### Advice

**Take action:** Be fast while retaining customer loyalty and gaining support of important stakeholders.

**Manage for cash:** Understand your cash position under different scenarios. Project your cash balance up to early 2021, with forecast on a weekly basis over the next three months. Managing cash should be the highest priority.

**Communicate clearly and proactively:** Effective communication with financial stakeholders is key. Early visibility of earnings forecasts provides clarity on the headroom required to adapt to the changing landscape. Cash management and cost reduction measures should also be embedded in this forecast update. This, in turn, facilitates early negotiation of any required covenant resets or amended facilities. Further communication plans can be rolled out with key trading partners and regulators to highlight the stable financial platform of the business and ensure that confidence is maintained.

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**Adjust capacity as far and fast as possible:** Prioritize network routes and flights for airlines and reduce internal cost accordingly. Manage hotels, transport, and other services for travel operators. Beware of the impacts that your decisions have on critical supply chain partners, as you will need these keys partners when the crisis is over. Where contracts do not allow for far-reaching capacity cuts, develop a “partnership for survival” approach with your suppliers.

**Balance retaining customer loyalty with liquidity:** Retain customer loyalty by offering flexibility to postpone travel dates or travel destination if possible, but consider enforcing cancellation policies if this is critical to survival. Communicate your position proactively.

## Our people

We deploy teams of highly experienced and qualified experts with profound situational and operational insight to support our clients in times of crisis.



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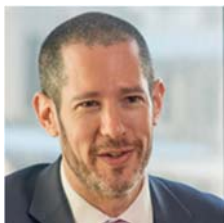
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