May Hotel P&L Analyzer: April down 22,290 bps y/y on -95.0% Total RevPAR

May and June will likely be sequentially "less bad" but April a good benchmark

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What's Inside

An analysis of recent hotel labor cost trends, one of the critical components impacting hotel EBITDA margins

What's Incremental To Our View

Based on "big data" observations from higher-rated U.S. hotels (data source: HotStats): April: -22,290 bps of GOP margin growth on -95.0% Total RevPAR (Rooms RevPAR + outside-of-the-room spend). We assume May results will be sequentially better (or "less bad") than April but severely negative margins will remain the theme for many higher-rated hotels for many months. Improvements will come from continued cost tightening, furloughs-->layoffs, limited rehiring with Spartan services, and the degree of improvement to corporate and group demand in 2H20.

While April's margin results will likely/hopefully be the worst in the history of the U.S. lodging industry, results for the rest of 2Q may follow somewhat similar patterns for many full-service hotels. Even through the end of May, Luxury/Upper Upscale absolute occupancy is in the teens. Without a material rise in corporate or group/convention-related travel in June (which to our understanding no public lodging company has assumed), we view April's results from HotStats as a benchmarking starting place for the rest of 2Q20.

While May and June margins will likely be sequentially better than April, there are one-time variables also impacting results and adding noise to April results, including:

1. Continued healthcare expenses for furloughed employees
2. Reduced spend in rooms and F&B COGS have not been fully implemented
3. Adjustments for closed hotels
4. Delayed impact from receipt of attrition/cancellation fees, any business interruption insurance, PPP/ stimulus, lower fees through franchisors
5. Lower salaries/bonuses for on-property and above-property management

April results color:

- April RevPAR and margin y/y growth were obviously highly negative. Rooms RevPAR was -95.2% and Total RevPAR was -95.0%. GOP margin growth was -22,290 bps y/y. Absolute GOP margins (% of total revenue) was -183.0% vs. +39.9% in April 2019.

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We view April's 2.3x differential between RevPAR and margin y/y growth/loss as higher than what we expect to see in upcoming months as cost controls (discussed above) become more pronounced. However, as we discussed in last month's P&L Analyzer note, we viewed Japan and Australia's 1.5-3.0x range for March as somewhat indicative of what we would expect for U.S. hotels in April. We continue to view these two countries' operating performance as a starting-place guide to U.S. and European higher-rated hotels as both Japan and Australia have similar labor models. Further, Japan and Australia seem to have controlled virus incidents faster than other highly developed economies in parts of Europe and the U.S. **Despite the above, we view forecasting the multiple between RevPAR loss and margin loss extremely challenging for the time being.**

2020 margin forecasts: we withdrew our forecasts in last month's note, in-line with public companies dropping guidance. We speak to many private hoteliers who readily admit that forecasting RevPAR and operating performance is impossible today given light/last-minute booking patterns and the loss of the majority of higher-rated corporate and group demand. **Very few hoteliers view group demand with any optimism in 2H20** as most groups on the books for 1H20 that have been pushed into 2H20 are likely to be pushed out again into 2021 if not cancelled outright.

Where we see labor costs trending: In-line with some of the assumptions noted above, hoteliers will continue to be aggressive about cost cuts on a line-by-line basis, hotel by hotel. Private hotel owners tell us they are contacting their operators and franchisors about every cost that could be reduced.

Additionally, we view the likely next step for many hoteliers to be moving furloughed employees to permanent job cuts. Most hotel occupancies are unlikely to normalize in 2020. We view hoteliers realistically cannot justify retaining employees on 1/3 to 1/2 historical occupancy, especially as **services to guests are being reduced or eliminated** for the time being. **Such moves will reduce costs over the course of the next several months and likely make margins "less negative" as occupancy slowly rebuilds.** We would also not be surprised to see salary reductions to on-property teams.

- **We will be curious to see how many above-property staff, especially at the executive level for third-party operators and owners, will take sympathy base salary reductions. We have heard from some large private owners that executive salary cuts have already occurred.** We assume there is increased attention to this topic especially from property-level employees, even if institutional investors have largely not focused on reductions to public company Corporate G&A.

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