

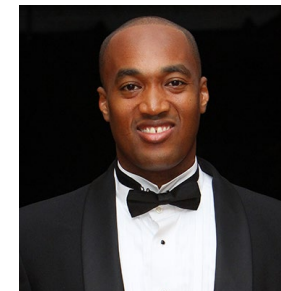


Debt Restructuring: Planning Now for Long Term Survival

Wed, April 8th, 2020 2-3pm et
#CHTALive

Participants

Sanovnik Destang
Executive Director
Bay Gardens Resorts



Dr. Justin Ram
Director of Economics
Caribbean Development Bank



Matt Norton
Practice Area Leader – Real Estate
K&L Gates LLP



George Spence
Managing Partner
Luxe Capital Americas





CARIBBEAN
HOTEL & TOURISM
ASSOCIATION

Debt Restructuring: Planning Now for Long Term Survival

Sanovnik Destang, CPA, CA, CFA
Executive Director, Bay Gardens Resorts, Saint Lucia



COVID-19 – An Unprecedented Challenge

- Very different from 9/11 or the 2008 Financial Crisis
- Travel bans and limited local populations (can't rely on staycation) will mean very low to 0% occupancy for many hotels for months
- Immediate personal concern was employees and cushioning impact on them
- Called bank as soon as first border restriction implemented (UK)



Immediate Needs – next 6-9 months

- Stay Alive! The recovery will come but will take time
- Request 6 month moratorium minimum of interest and principal. Most banks are granting this
- Interest accrual during moratorium – find out if bank is capitalizing interest or extending repayment term (preferred)
- 6-9 month cash flow should be prepared to determine financing needs as recovery will take time
- Remember that cash flow and accounting profit are very, very different and right now ***Cash is King!***



Medium to Long Term Priorities – Getting ready for 2021

- Demand will return but RevPar will be lower
 - Potentially fewer flights
 - Consumers impacted by job losses
 - Lower ADR
 - Lower Ancillary Revenue (F&B, spa, Meetings) due to both economy and social distancing
- May also experience higher costs in some areas (cleaning)
- Need to use the downtime to prepare a realistic 2021 income and cash flow forecast
- Forecast may reveal that current levels of debt service may be tough to sustain for 2021



Medium to Long Term Priorities – Negotiating Lending terms post Moratorium

- To ensure long term survival should have a frank and open discussion with bank about restructuring loan to reduce monthly debt service
- Longer repayment terms may be an option in some cases
- Lower Interest Rates? There are two sides to argument
- Rationale For Lower Interest Rate
 - LIBOR, Fed Funds and other rates are down internationally
 - Also regionally post covid (ECCB, T&R Central Bank)
- Rationale Against Lower Interest Rate
 - Higher risk due to debt restructuring
 - Banks will under pressure due to lower deposits and business and consumer moratoriums (no cash flow)
 - Regional Central Bank rates don't impact cost of funds for commercial banks

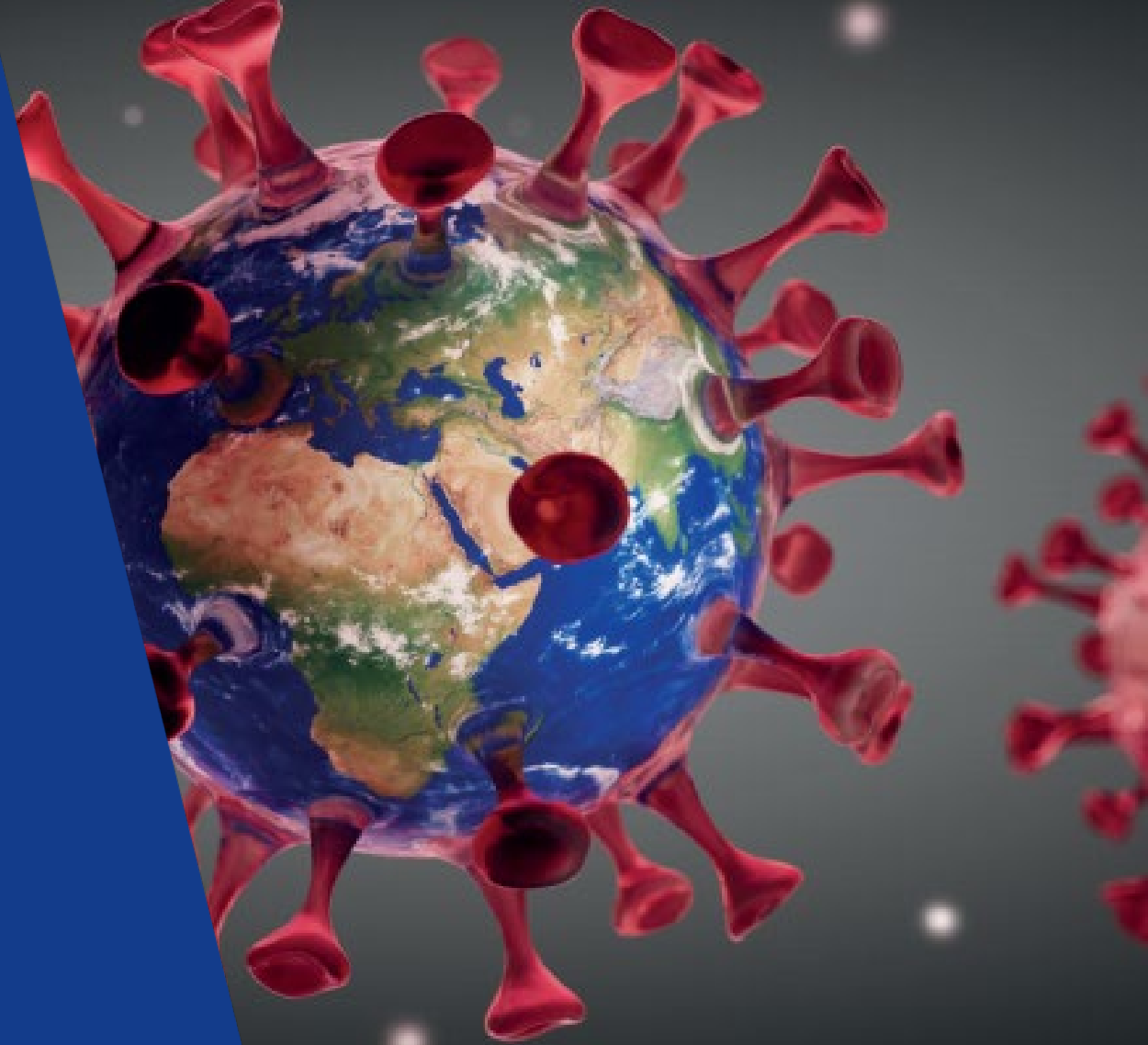


Key Takeaways

- Use the downtime this month to forecast for 2020/2021 and beyond
- Project short term financing gap & long term sustainable debt service load
- Negotiate better long term debt restructuring with banks but....
- Remember that we are ALL in this together (including the banks!)
- Don't forget your most important asset! Your employees! Financial assistance wherever possible and facilitating their own personal debt restructuring with banks.



COVID-19: IMPLICATIONS AND POLICY RESPONSES FOR THE CARIBBEAN



**Justin Ram
Director
Economics Department
April 08, 2020**

PRESENTATION OUTLINE

01

**OUR EXISTING CHALLENGES &
GLOBAL CONTEXT**

02

IMPLICATIONS OF COVID-19

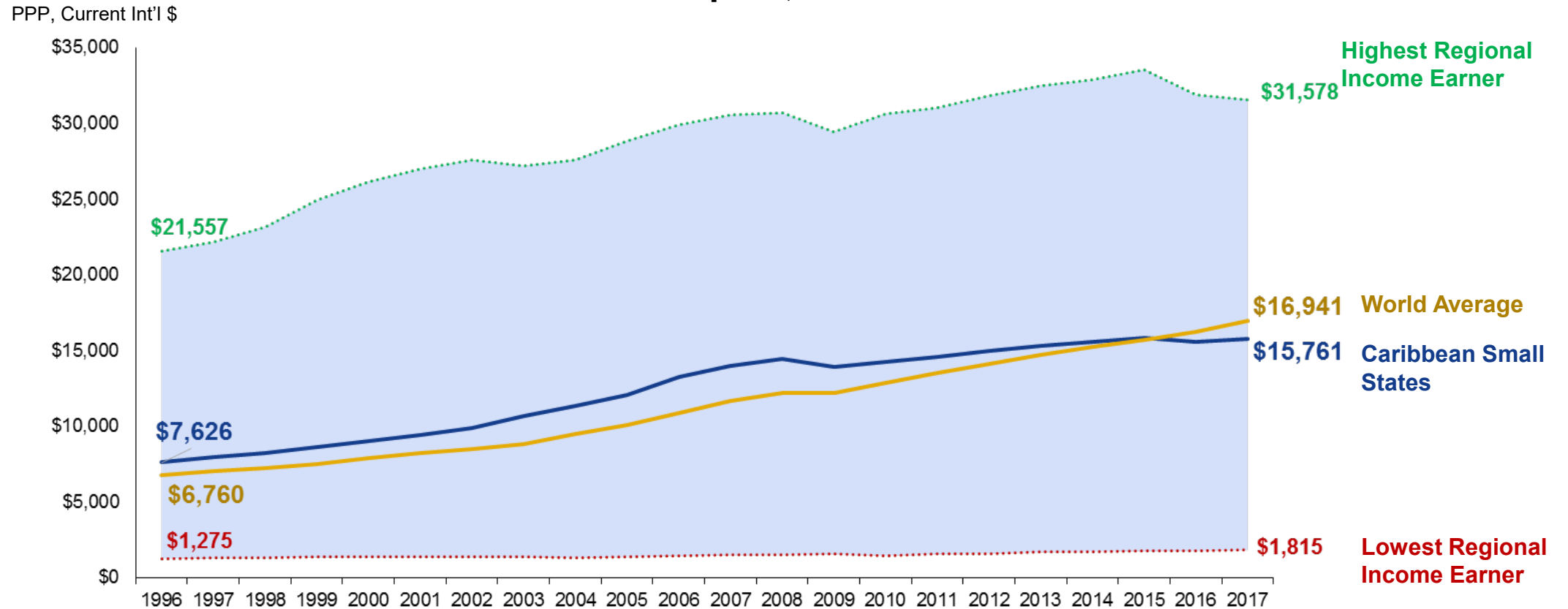
03

POLICY RESPONSE



Ground Zero: Where were we before COVID-19?

GDP Per Capita*, 1996 – 2017

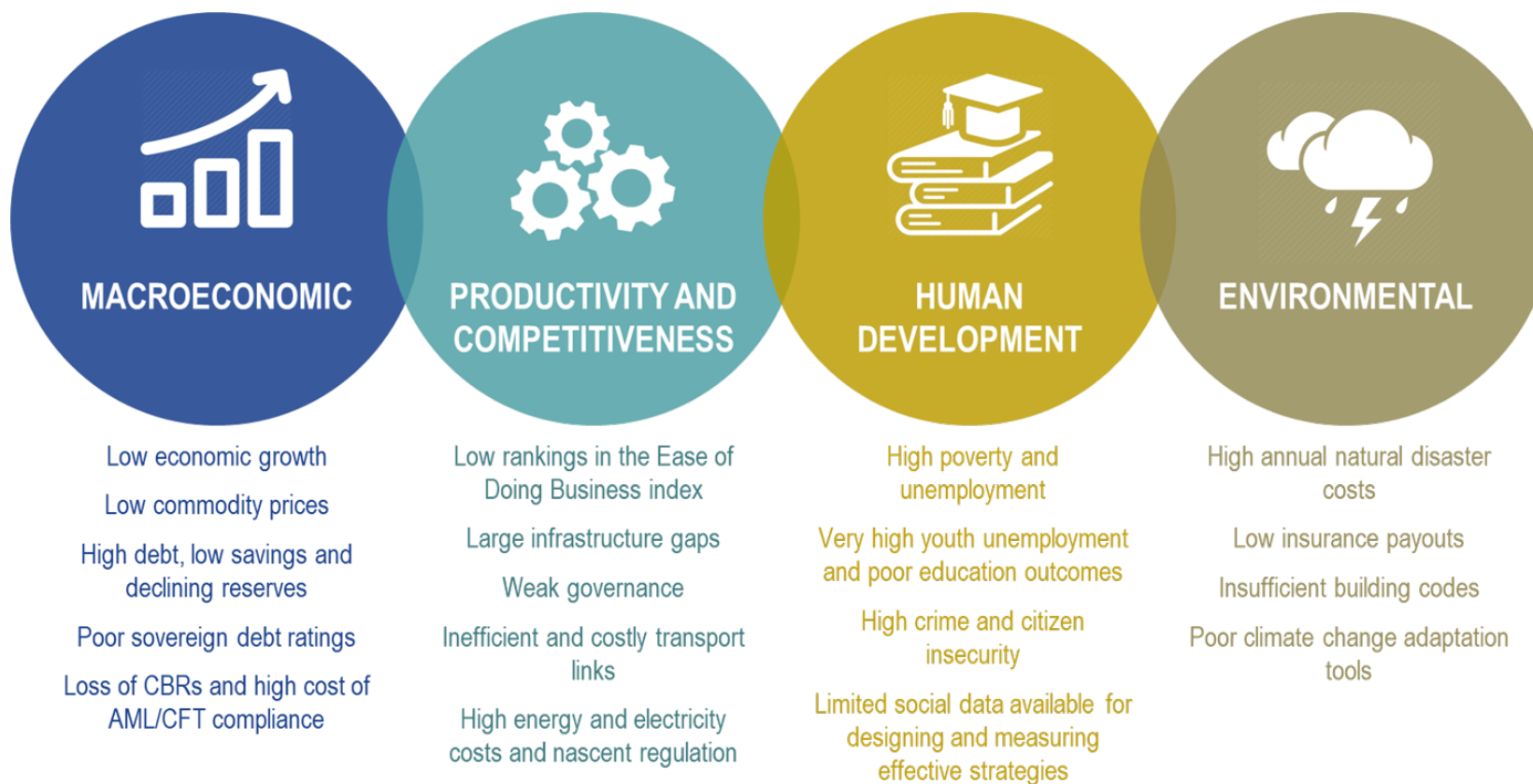


*PPP, current international 4

Note: Based on available data from the World Bank. The *Lowest Income Earner* is always Haiti. The *Highest Income Earner* is The Bahamas until 2008, then Trinidad and Tobago thereafter



Ground Zero: Where were we before COVID-19?



Cross-cutting Challenges

Implementation Gap

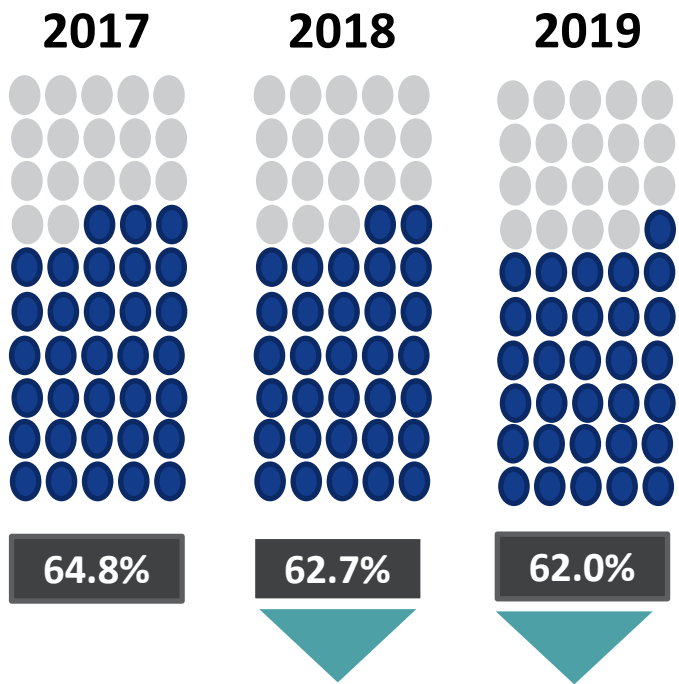
Regional Approach Gap



Development Challenges

In 2019, sovereign debt levels fell in many countries

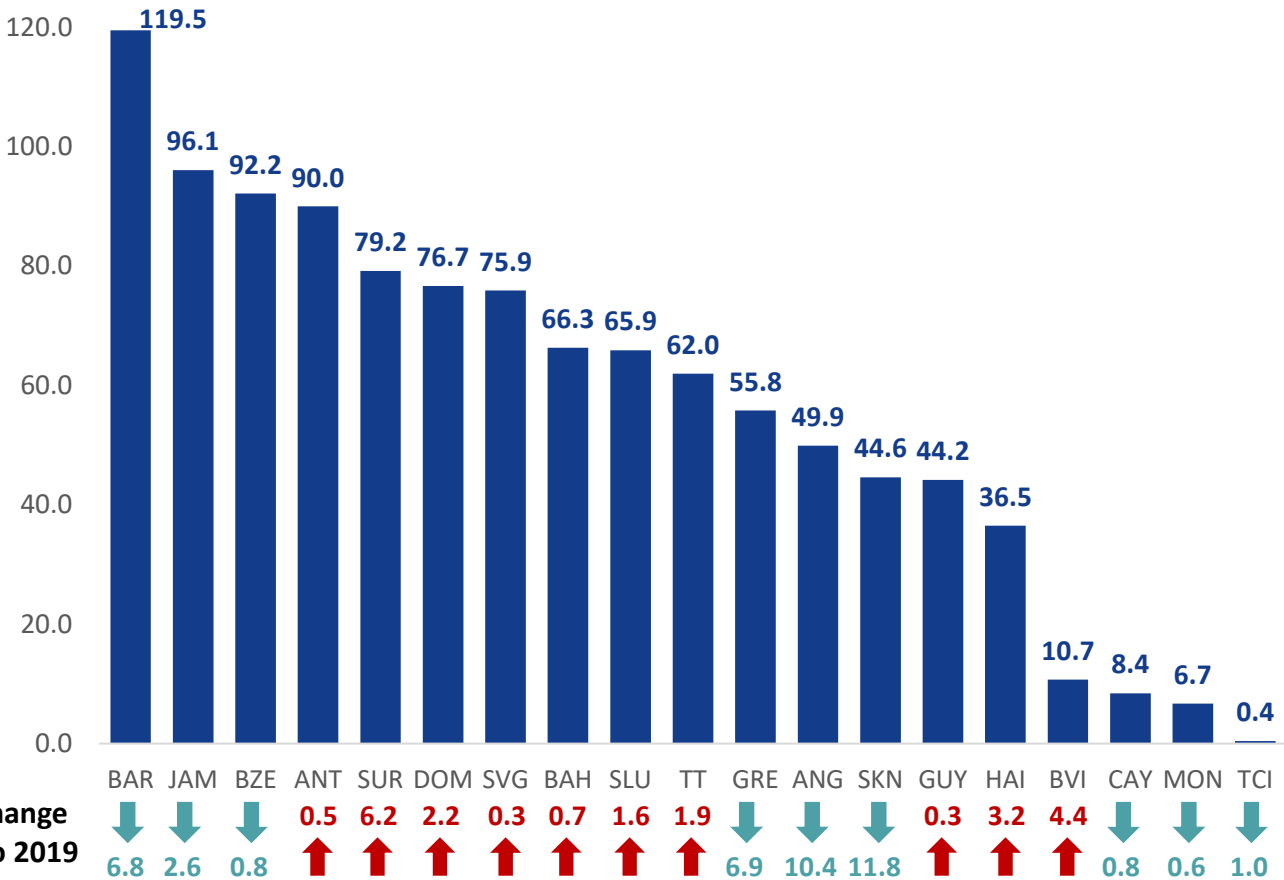
The median debt level fell slightly



Source: Central Banks

Government Debt as a share of GDP

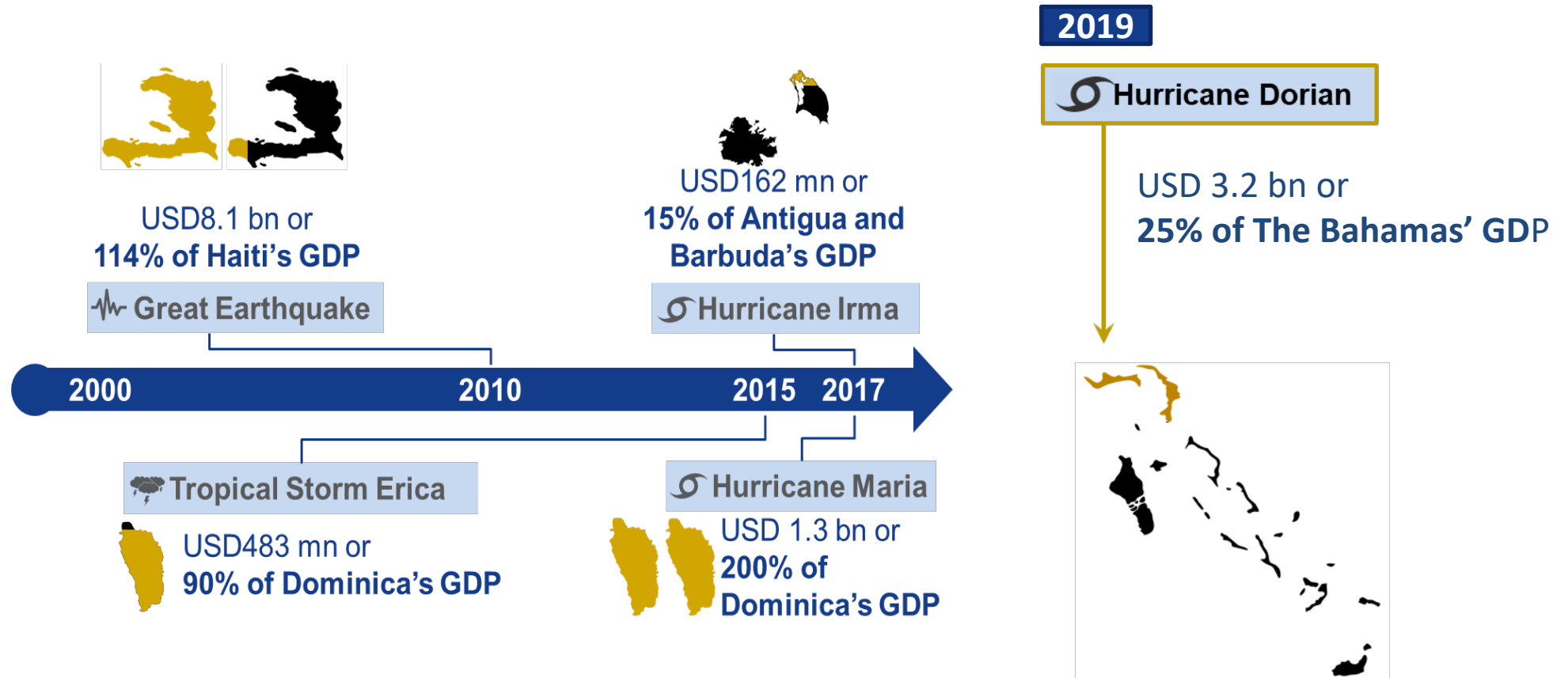
Latest available statistics for 2019





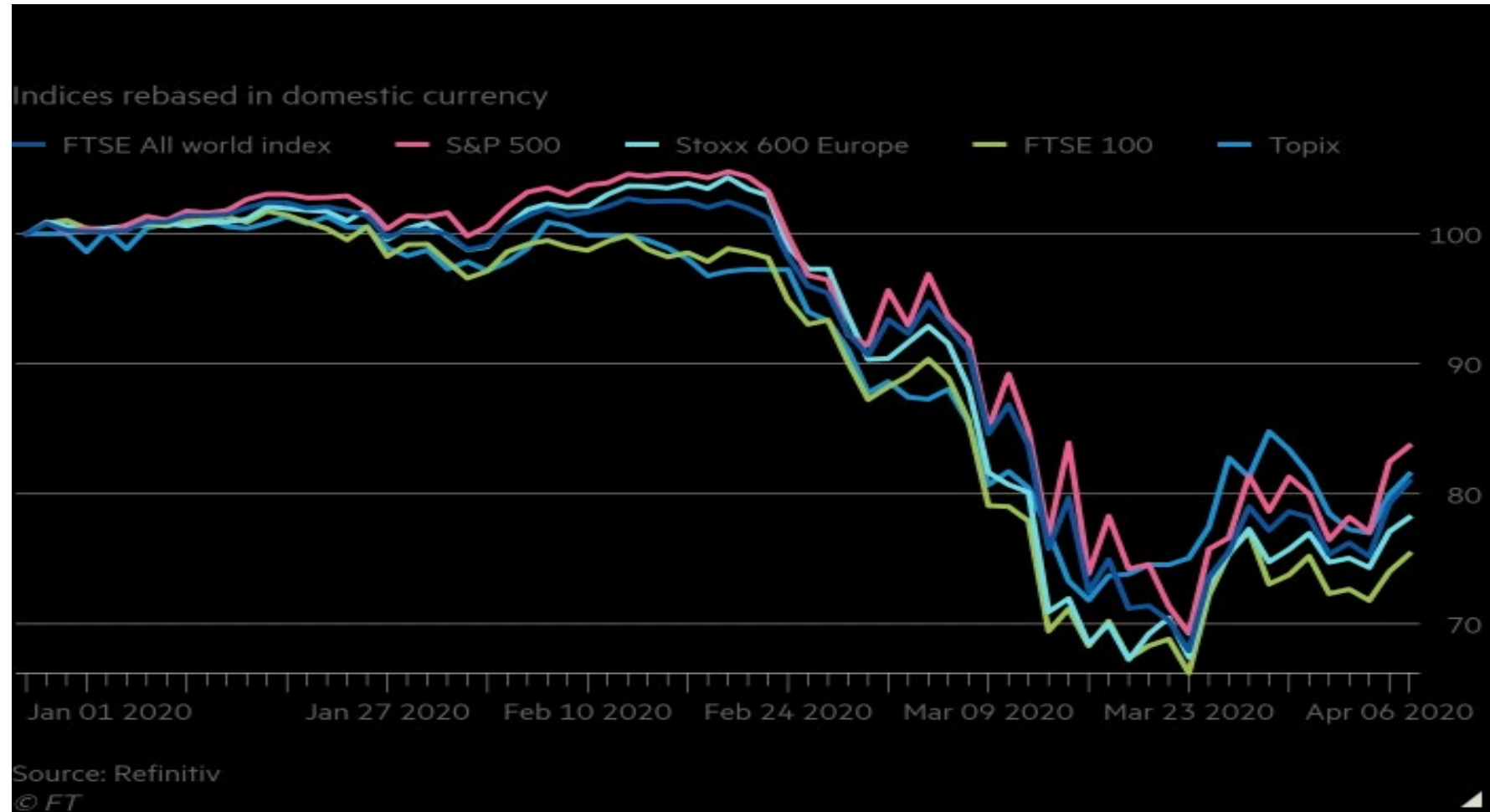
Environmental Challenges

In recent years, losses and damages from natural events cost BMCs **over USD27 bn**



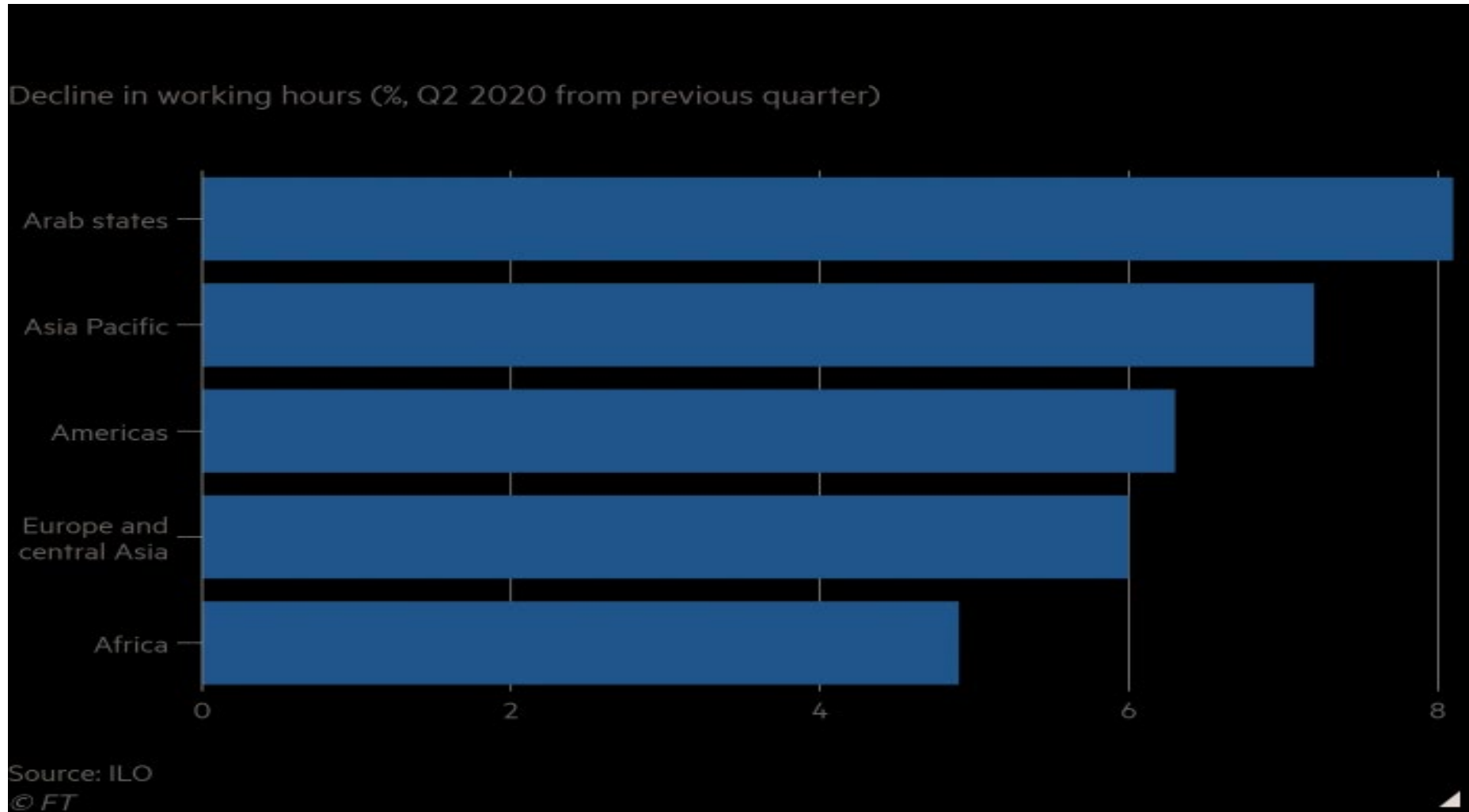


Stock indices have declined considerably



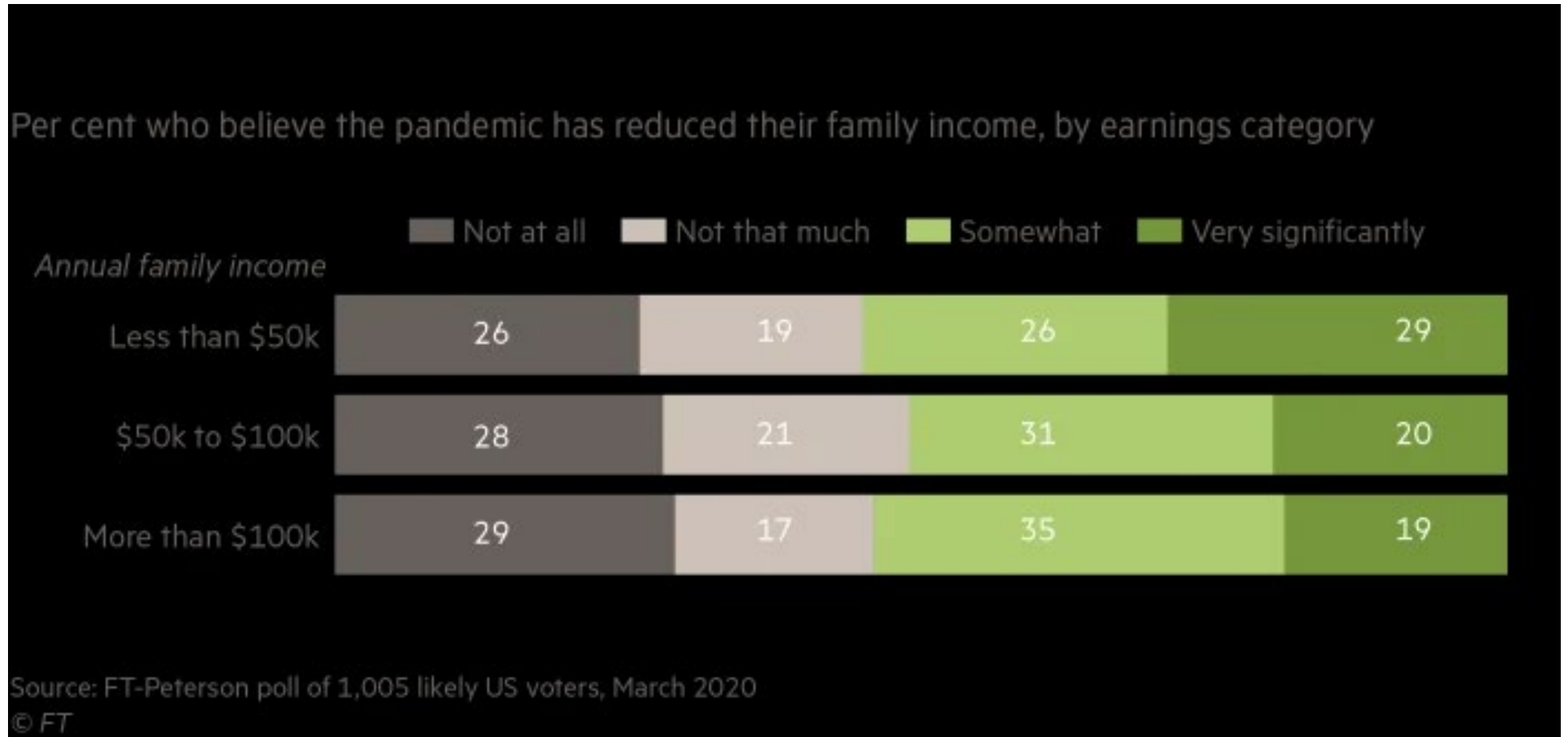


Decline in working hours





% of Americans who believe that the pandemic has reduced their family income, by earning category



PRESENTATION OUTLINE

01

GLOBAL CONTEXT

02

IMPLICATIONS OF COVID-19

03

POLICY RESPONSE



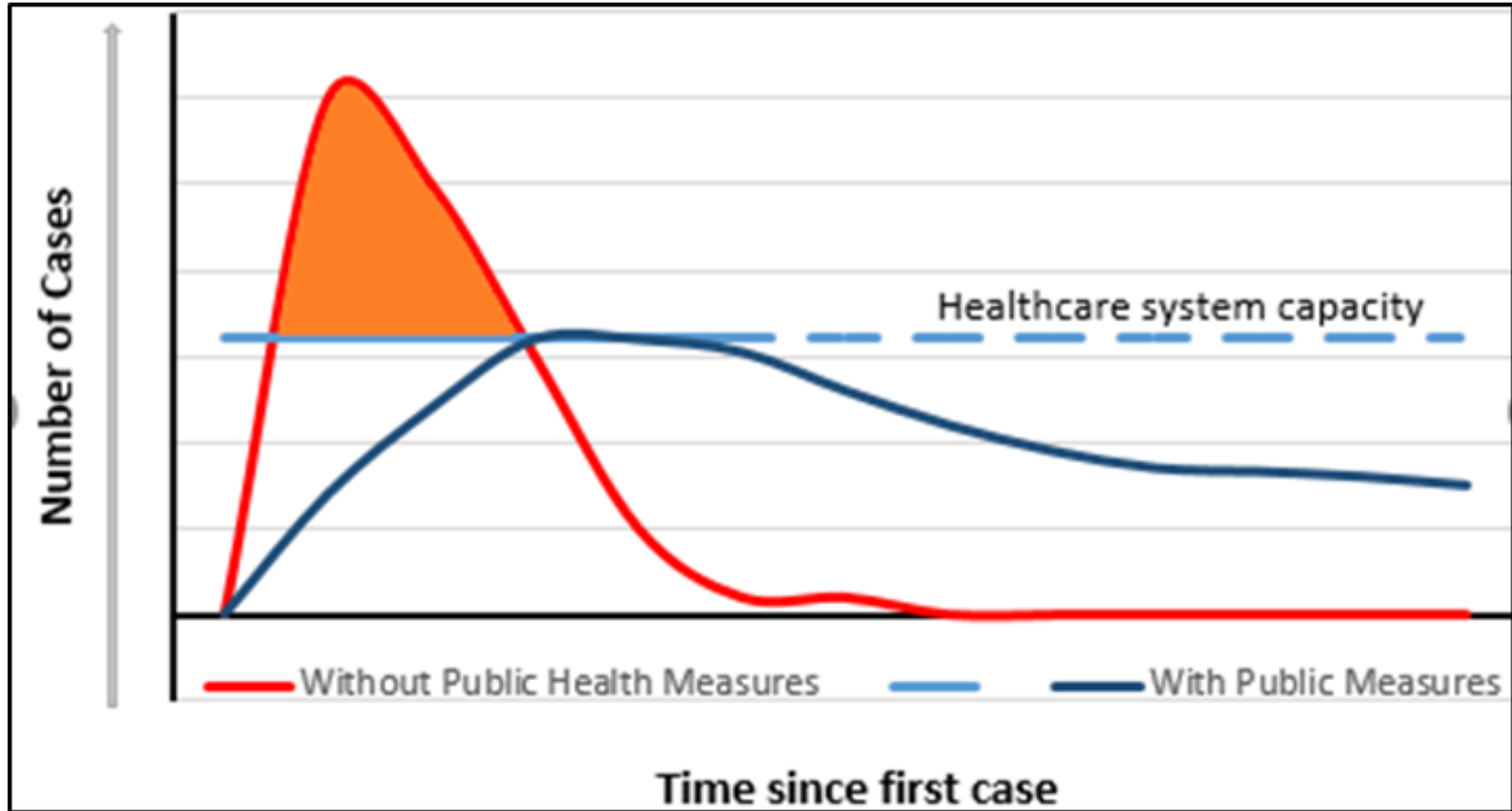
Tourism Dependent Countries

	Contribution to GDP (2019)		Share of Employment (2019)		Tourism Receipts
	Direct	Total	Direct	Total	Share of Exports
	%		% of Employment		% of Total
ANGUILLA	16.9	48.3	18.1	51.1	61.9
ANTIGUA	12.3	44.7	12.3	44.7	37.8
BAHAMAS	19.5	40.3	26.9	48.1	65.2
BARBADOS	11.6	36.2	12.2	36.4	56.6
BELIZE	15.5	44.7	13.0	38.9	42.8
VIRGIN ISLANDS	25.8	73.1	17.2	53.6	54.1
CAYMAN ISLANDS	8.4	30.1	10.0	31.9	29.1
DOMINICA	12.5	38.0	11.3	34.7	46.0
GRENADA	19.0	55.8	17.8	51.6	26.9
GUYANA	2.9	7.7	3.2	8.2	7.8
HAITI	2.9	8.3	2.4	7.2	38.0
JAMAICA	10.8	34.7	9.7	31.5	59.9
ST. LUCIA	16.0	43.0	16.0	43.0	46.9
ST. VINCENT AND THE GRENADINES	13.8	46.2	12.9	42.7	39.9
ST. KITTS AND NEVIS	19.1	62.6	19.0	60.2	31.9
SURURINAME	1.6	3.7	1.6	3.5	3.2
TRINIDAD AND TOBAGO	3.0	7.8	3.8	9.9	4.7

Source: WTTC

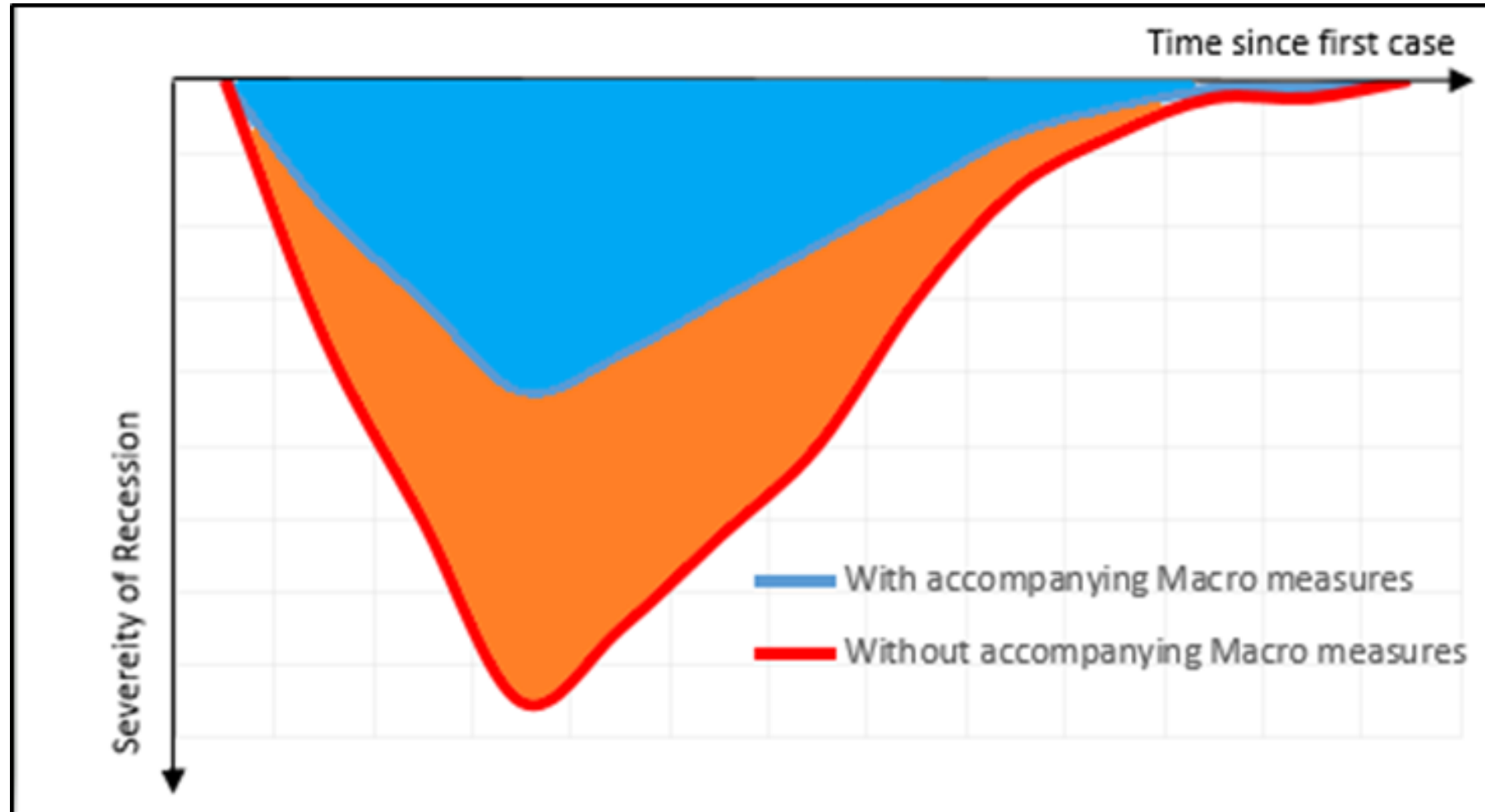


Our Priority (global) is to flatten the Health pandemic curve



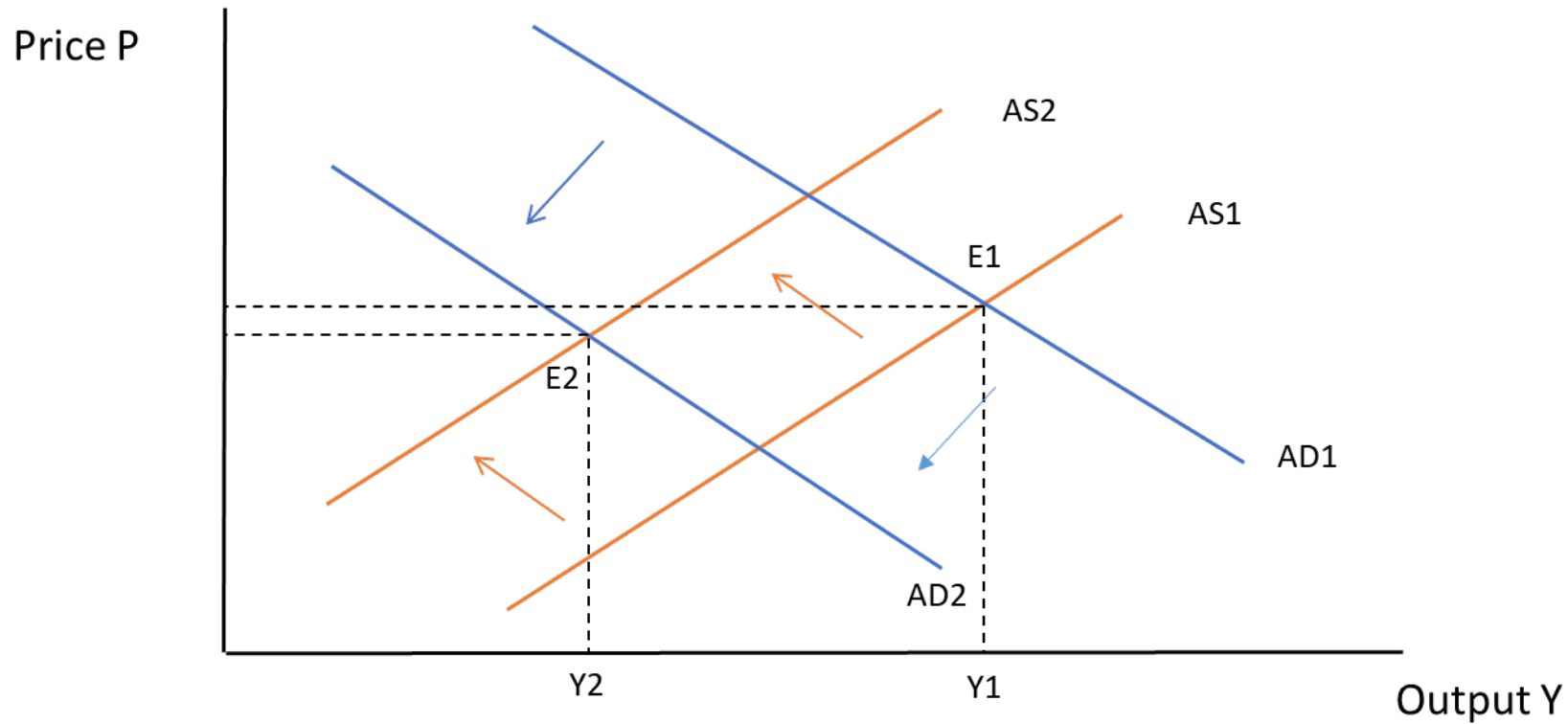


Depth and length of recession depends on macro measures





There will be an impact on aggregate demand and aggregate supply thus output will fall and the price level will also be impacted





Multiplier Effects of Tourism

Arrivals

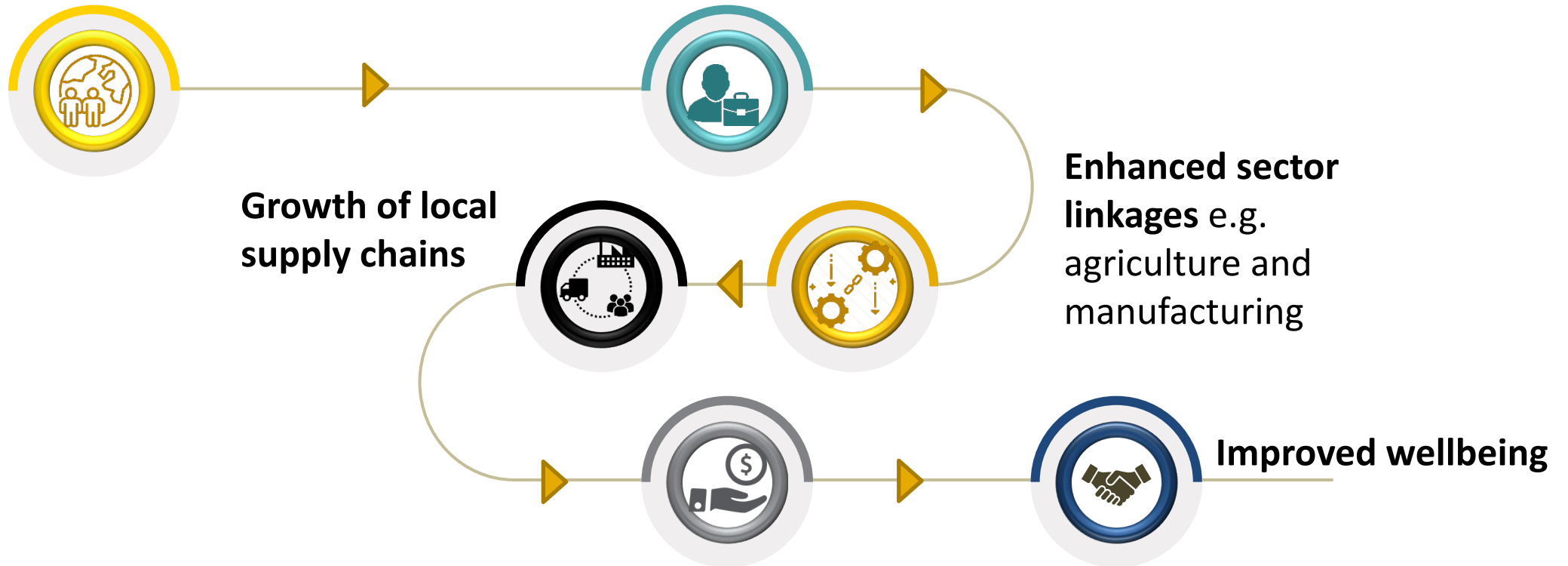
Direct and indirect jobs

**Growth of local
supply chains**

**Enhanced sector
linkages e.g.
agriculture and
manufacturing**

**Greater Tax Yields for economic
and social infrastructure**

Improved wellbeing





IMPACTS IN THE CARIBBEAN

Tourism



The tourism-dependent economies are being affected by an economic slowdown. Tourism employs approximately 2.4 million (mn) people in the Region and contributes more than \$62 billion (bn) (15.5%) to gross domestic product (2018).



The impacts are being felt in the cruise industry as many governments deny porting to some vessels. Like airlines, most cruise ships have now cancelled their remaining cruises and repatriated their cruisers and crews.

Commodities



Lower demand for fuel and increased supply has driven down the price of crude on the international market. Negative impacts on the Region's oil exporters: Trinidad and Tobago, Guyana and Suriname



IMPACTS IN THE CARIBBEAN

Consumption and Investment



Supply-side disruptions to production and trade will lead to sharp but temporary **declines** in domestic consumption, and possibly investment if the outbreak affects views on future business activity



Spillovers of weak demand to other sectors and economies through trade and production linkages

Health and Productivity



Effects on health and mortality as well as major shifts in health care spending



What does our modeling show?

Assumptions

Low- COVID-19_50%

Moderate outbreak of the virus, with travel bans and precautionary behavior abating only after 6 months (March – September 2020). A 50% reduction in stayover tourist arrivals is used to effect the real sector shock.

Moderate- COVID-19_80%

Moderate outbreak of the virus, with travel bans and precautionary behavior abating only after 6 months (March – September 2020). An 80% reduction in stayover tourist arrivals is used to effect the real sector shock.

High- COVID-19_100%

The outbreak is even more protracted, with precautionary behavior and restrictive policies remaining in place for the remainder of 2020 (March-December 2020). A 100% reduction in tourist arrivals is used to effect the real sector shock.



Summary of Results

CDB Modeling

Macro-Economic Indicators

Real Economic Growth



Government Revenues



Liquidity



Government Expenditures



Public Debt



Social Indicators

Unemployment



Mortality Rates



Poverty Rates



Social Exclusion



Access to Health Care



Environment



PRESENTATION OUTLINE

01

GLOBAL CONTEXT

02

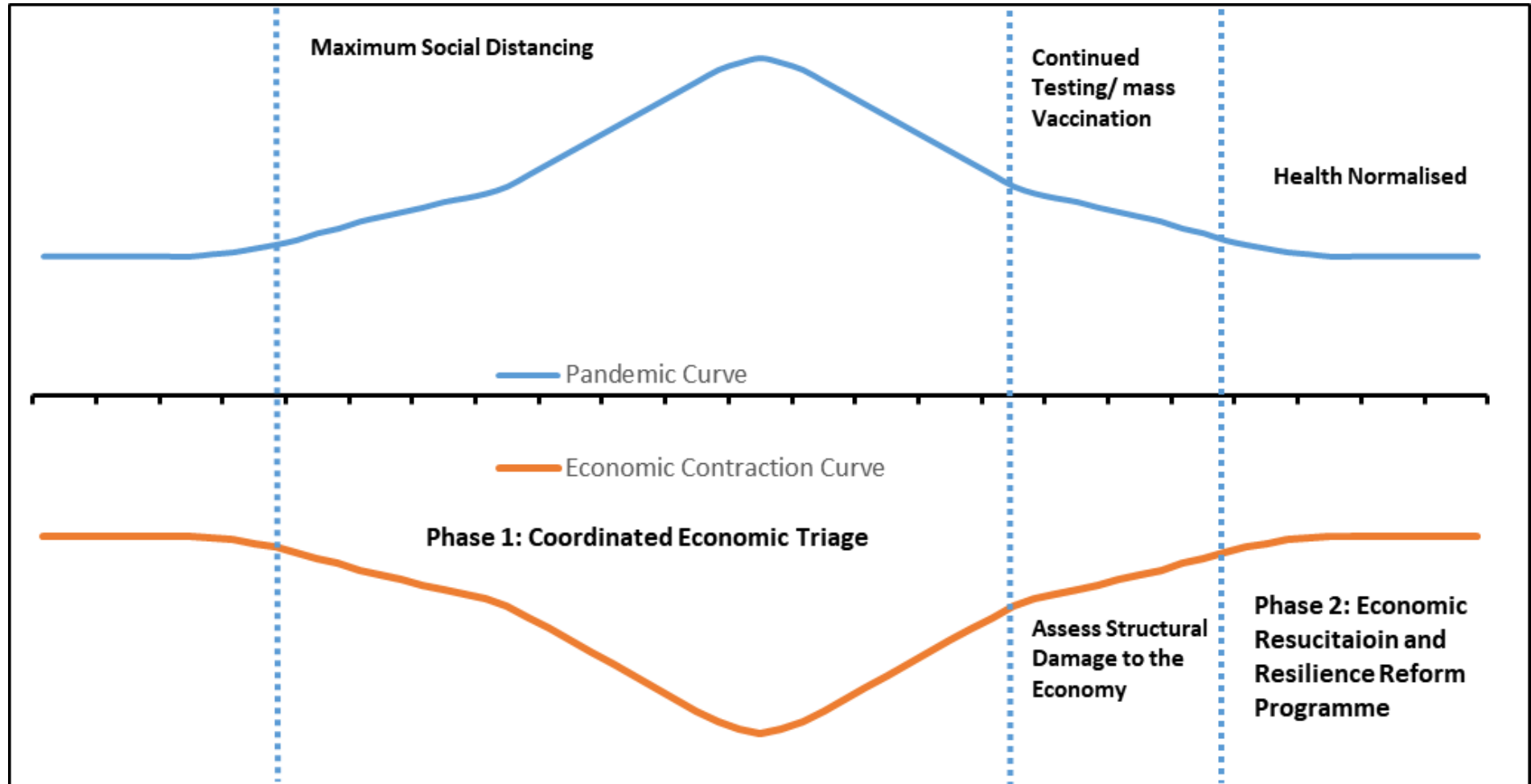
IMPLICATIONS OF COVID-19

03

POLICY RESPONSE



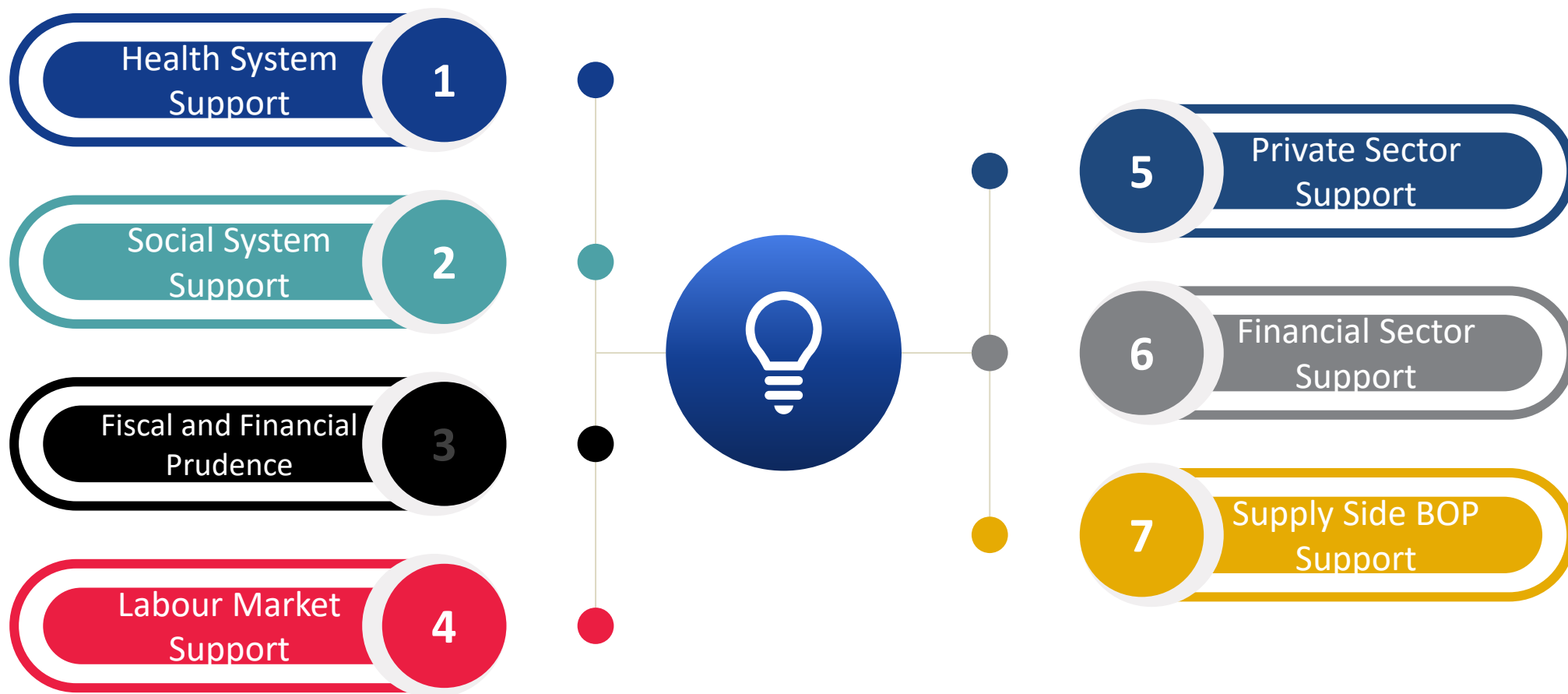
Two phases of policy response: Economic Triage and Economic Resuscitation and Resilience Building





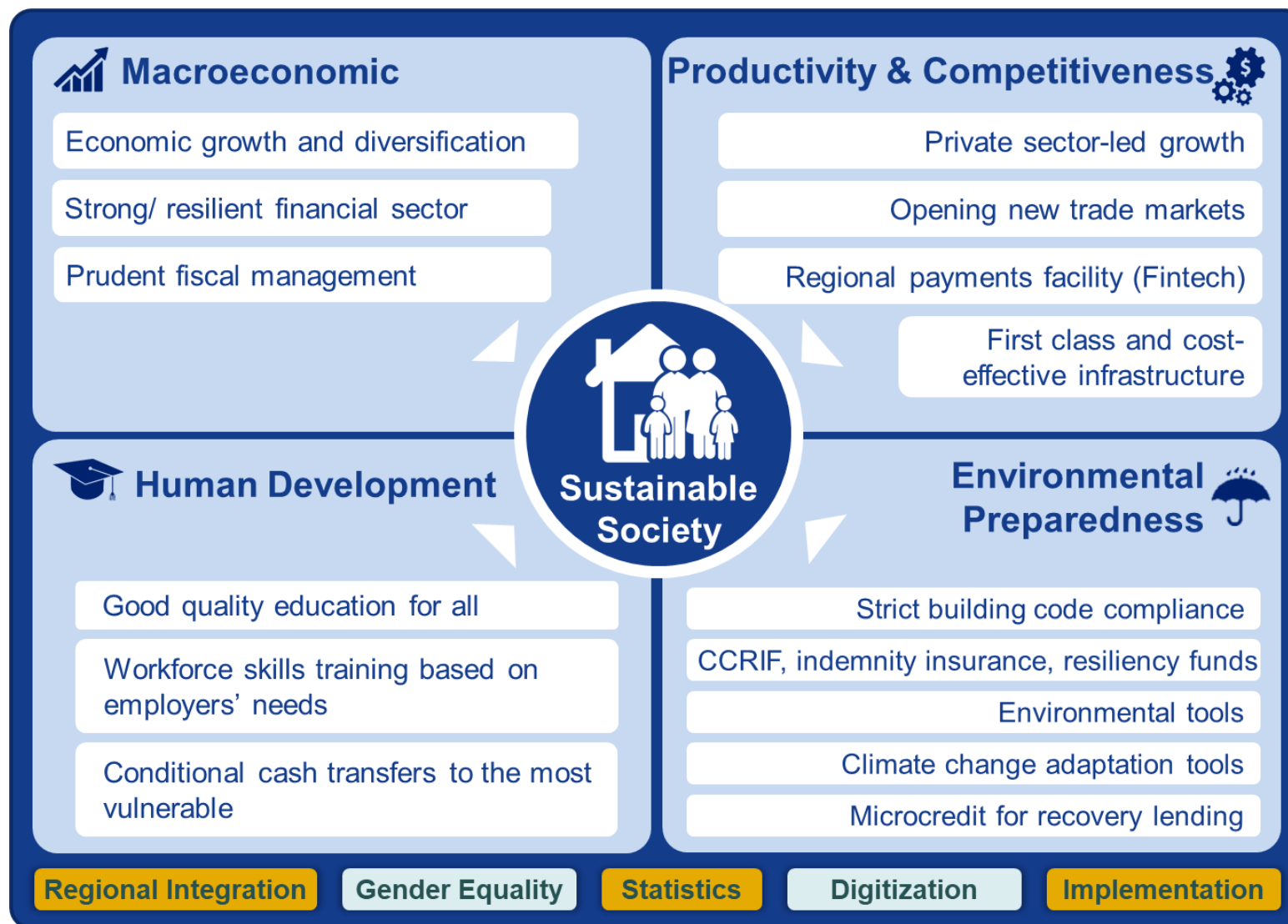
Potential Policy Options: Phase 1- Economic Triage

Flattening the Recession Curve but an anchor must be sufficient FX reserves





Potential Policy Options – Phase 2- Resuscitation and Resilience





But we must implement: How to stop culture from eating our rebuilding strategy for breakfast

8 Steps to Delivery



Source: PEMANDU

“We **cannot turn the clock back** nor can we **undo the harm caused**, but **we have the power to determine the future** and to ensure that what happened never happens again.”

- Paul Kagame





CARIBBEAN
HOTEL & TOURISM
ASSOCIATION

Debt Restructuring

Planning Now for Long Term Survival



**Debt Restructuring:
Planning Now for Long
Term Survival**

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

**Matt Norton
K&L Gates LLP**

Building Your Case For Debt Restructuring - What Hotel Owners and Investors Can Do Now

- **Review all Relevant Documents and Analyze Your Rights and Obligations**
 - Loan Documents including Collateral Documents and Guaranties
 - Hotel Documents (Hotel Management Agreements, Franchise Agreements, TSAs, SNDAs, and Comfort Letters)
 - Equity Investor Documents - Joint Venture / Corporate Documents
 - Development Agreements and Similar Concessions Agreements with Government
 - Other Relevant Agreements, Permits, and Licenses - Use Agreements (Golf, Parking etc.)

Note: Pay Particular Attention to *Force Majeure* provisions, Material Adverse Change/Event provisions, Performance Milestones, Construction, Operational and Financial Covenants, Reserves, Default/Termination Provisions, and Notice Requirements

Building Your Case For Debt Restructuring - What Hotel Owners and Investors Can Do Now

- **Review Insurance Policies and File Applicable Claims (esp. Business Interruption/Business Continuity Insurance)**

Note: Often Times Tied to Property Loss But Look Out for Both Riders and Exclusions That Might Support/Exclude Coverage for Infectious Diseases or Government Ordered Closures

Building Your Case For Debt Restructuring - What Hotel Owners and Investors Can Do Now

- **Monitor Relevant Regulatory Issues - Make Sure you are Aware of Applicable Government Requirements and Programs In Your Jurisdiction**
 - Travel Advisories, Stay-at-Home Advisories, and Public Health Department Guidelines
 - Potential Government Assistance
 - Changing Government Regulations That May Relax Requirements For Your Business - Moratorium on Foreclosures e.g.
 - Changing Government Regulations That May Affect Your Existing Concession Agreement with Government or Relevant Concession Legislation
- **Increase Communication / Reporting with Stakeholders**

Building Your Case For Debt Restructuring - What Hotel Owners and Investors Can Do Now

- Do your Homework and Put Together a Lender Book Describing The Current Financial Condition of Your Property and Expected Performance
 - Create Current Hotel Operations Statements, Cash Flow Statement, Balance Sheet, and CapEx Reports and Revise Budgets
 - Ascertain Loan Reserve Information and Revise Budgets
 - Describe Cost-Savings Measures and Impact on Your Business
 - Describe Ways in Which You are Protecting the Underlying Value of Your Property
 - Describe Status of Ongoing Discussions with Other Stakeholders - Investors, Hotel Brands, Hotel Management Companies, and Government etc.
 - Include Business Continuity Plan to Deal with Personnel Reduction, Disruptions in Supply Chain, Operational Issues if Guests Are Still Staying in the Hotel Etc.
 - Include Plan to Increase Cash Flow and Return To Normal Operations With Expected Timelines and Assumptions/Contingencies

Note: Lenders Will Appreciate Honest and Transparent Communication About the State of and Future Prospects for Your Property and Repayment of Their Loan

Building Your Case For Debt Restructuring - What Hotel Owners and Investors Can Do Now

- Considerations To Discuss With Your Lender
 - Payment Forbearance (Principal/Interest Reductions) - Short-Term Fix Versus a Medium to Longer-Term Fix
 - Request for Waivers of Default Interest and Late Charges
 - Request for Short-Term Advances to Assist with Near-Term Operating Shortfalls
 - Request Extensions for Construction and Other Milestones/Maturity Date - Stay Practical With Your Approach
 - Reallocation of Reserve Accounts - Moving Existing Funds Around to Fund Critical Needs Like Operational Shortfalls
 - Request for Financial and Operational Covenant Waivers
 - Possible Offer of Short or Longer-Term Credit Enhancement
 - How to Define the “Forbearance Period” Based on COVID-19 Impacts

Note: Before Commencing Negotiations With Your Lender, Consider Entering into a Pre-Negotiation Agreement

Building Your Case For Debt Restructuring - What Hotel Owners and Investors Can Do Now

Matthew J. Norton

Practice Area Leader - Real Estate

K&L Gates LLP

134 Meeting Street, Suite 500

Charleston, SC 29401

Charleston Office: 1 843 579 5634

New York Office: 1 212 536 4047

matt.norton@klgates.com

Nothing contained in this presentation should be construed as legal advice being provided by K&L Gates LLP or Matt Norton, Esq.

Debt Restructuring

Planning Now for Long Term Survival



LUXE CAPITAL



Debt Restructuring:
Planning Now for Long
Term Survival

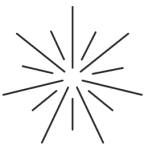
Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET



CARIBBEAN
HOTEL & TOURISM
ASSOCIATION

April 8, 2020. George Spence Luxe Capital Americas

Sequence Demanding Hoteliers' Attention



LUXE CAPITAL

The COVID-19 Crisis has moved so fast that circumstances have dictated the order in which hoteliers have focused on issues.

- Labor matters have taken up the first and most attention so far.
- Decisions on how and when to close the hotel(s).
- Relationships with local and international suppliers of food, beverage etc. have had to be negotiated.
- Relationships with clients, such as tour operators, travel wholesalers, OTA's, groups, conventions, including cancellations, collecting \$.
- Relationships with governments.
- The issue of what to do about the banks has been pushed to the back of the line.



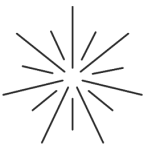
CARIBBEAN
HOTEL & TOURISM
ASSOCIATION



Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

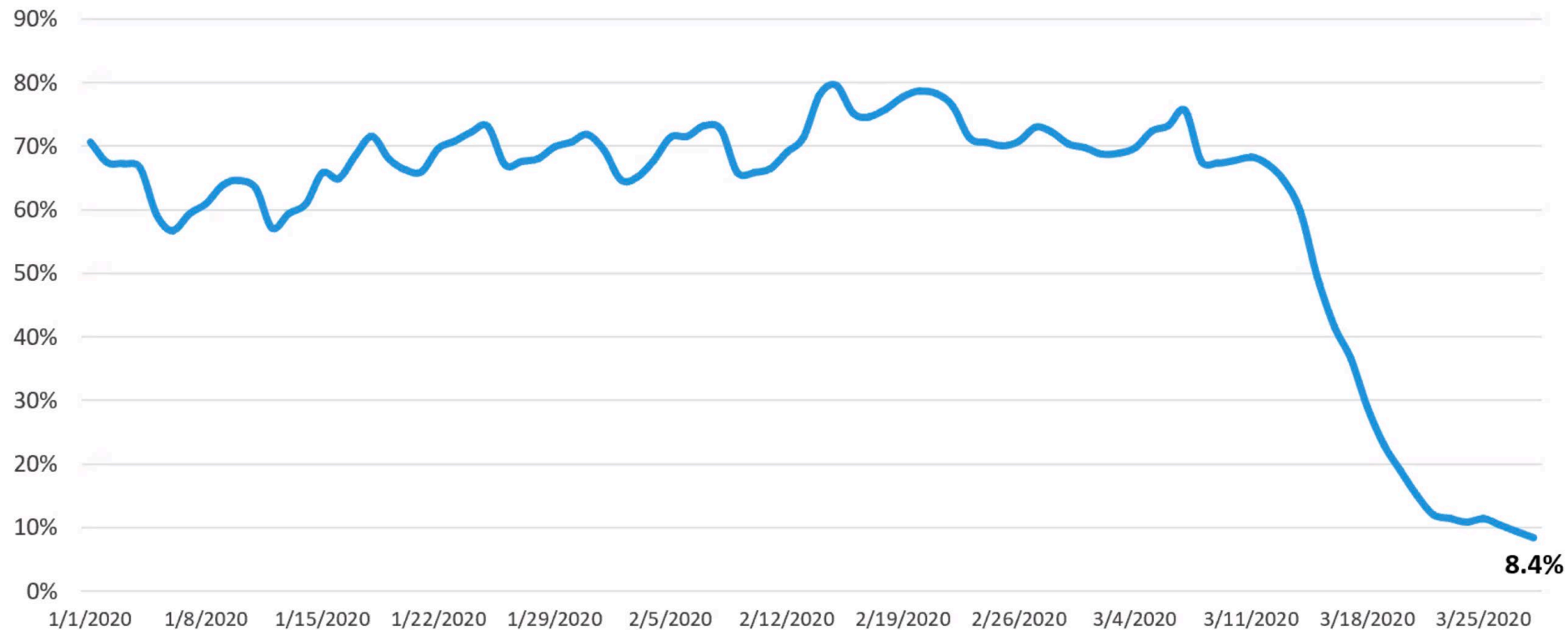
Dramatic Drop in Hotel Occupancy



LUXE CAPITAL

Caribbean occupancy headed to single digits

Total Caribbean, Absolute Occupancy, Daily Data, January 1st – March 28th 2020



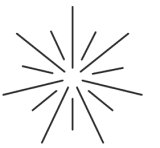
Source: STR. 2020 © CoStar Realty Information, Inc.



Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

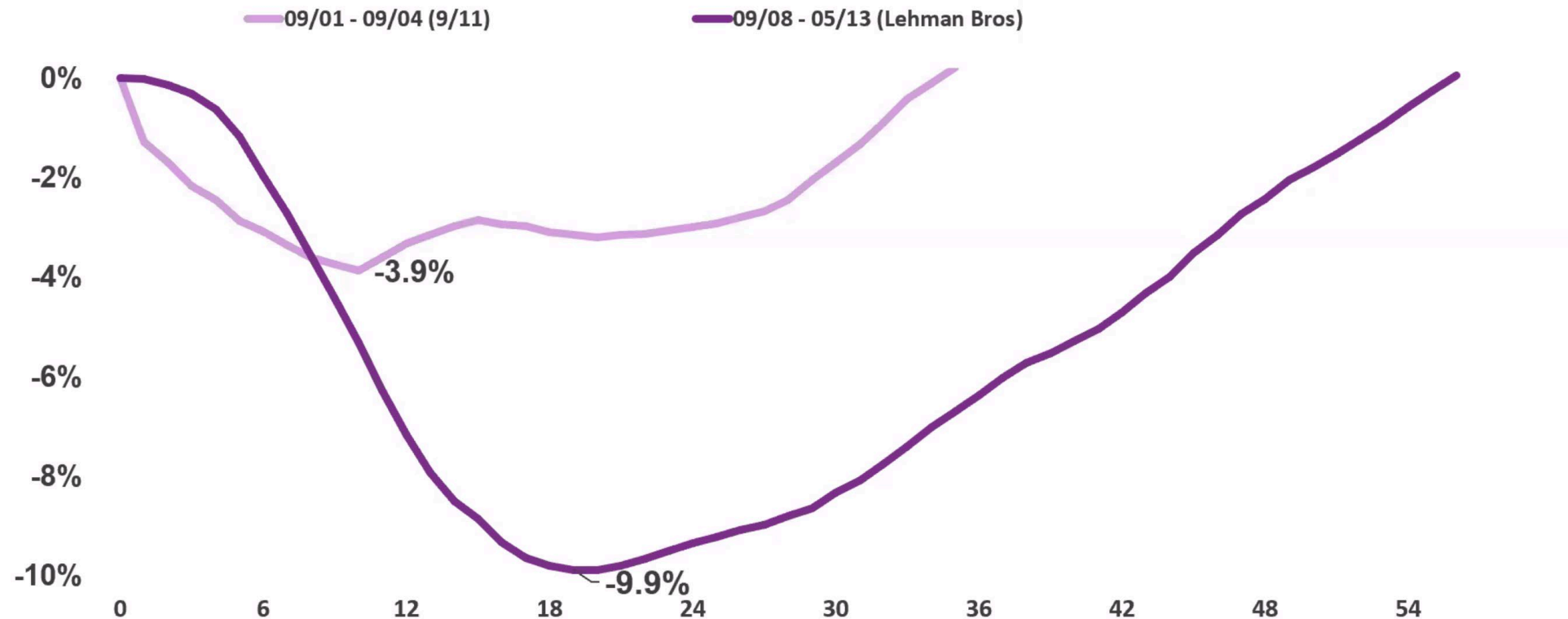
Average Daily Rate Recovery Takes Time



LUXE CAPITAL

ADR discounts lead to long recovery time

Total US, 12MMA , Monthly ADR % Change, Indexed to Event



Source: STR. 2020 © CoStar Realty Information, Inc.



Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 - 3:00 P.M. ET

9-11 Impact on the Travel Industry:

- Fear & Uncertainty.
- Fear of air travel.
- Concern about travel abroad.
- Uncertainty about future terrorism attacks and their impact on security and the economy.

2008-2009 Financial Crisis Impact :

- Economic and financial problems.
- Loss of the value of financial assets.
- Loss in the value of real estate.
- Job insecurity.
- Decline in travel due to economic uncertainty.

COVID-19 Impact on Travel Industry

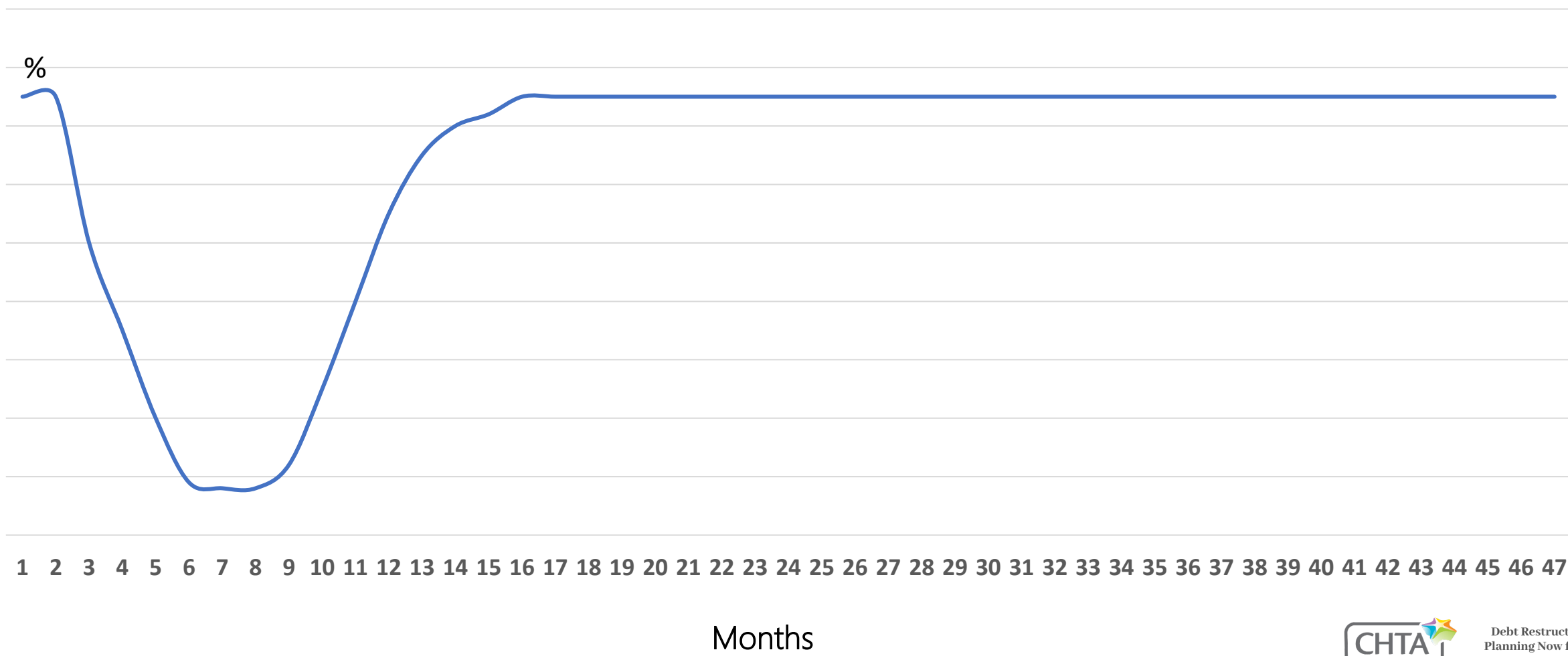
- Unique combination of:
 - Fear & Uncertainty.
 - Economic and financial losses.
 - Job losses.
- Deeper losses for airlines & hotel companies.
- Severe challenges for the cruise industry.

Insights of James Hepple, Tourism Analytics.

A "U" Shaped Recovery Would be Attractive...

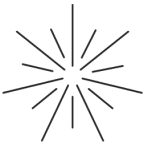


Occupancy % by Month



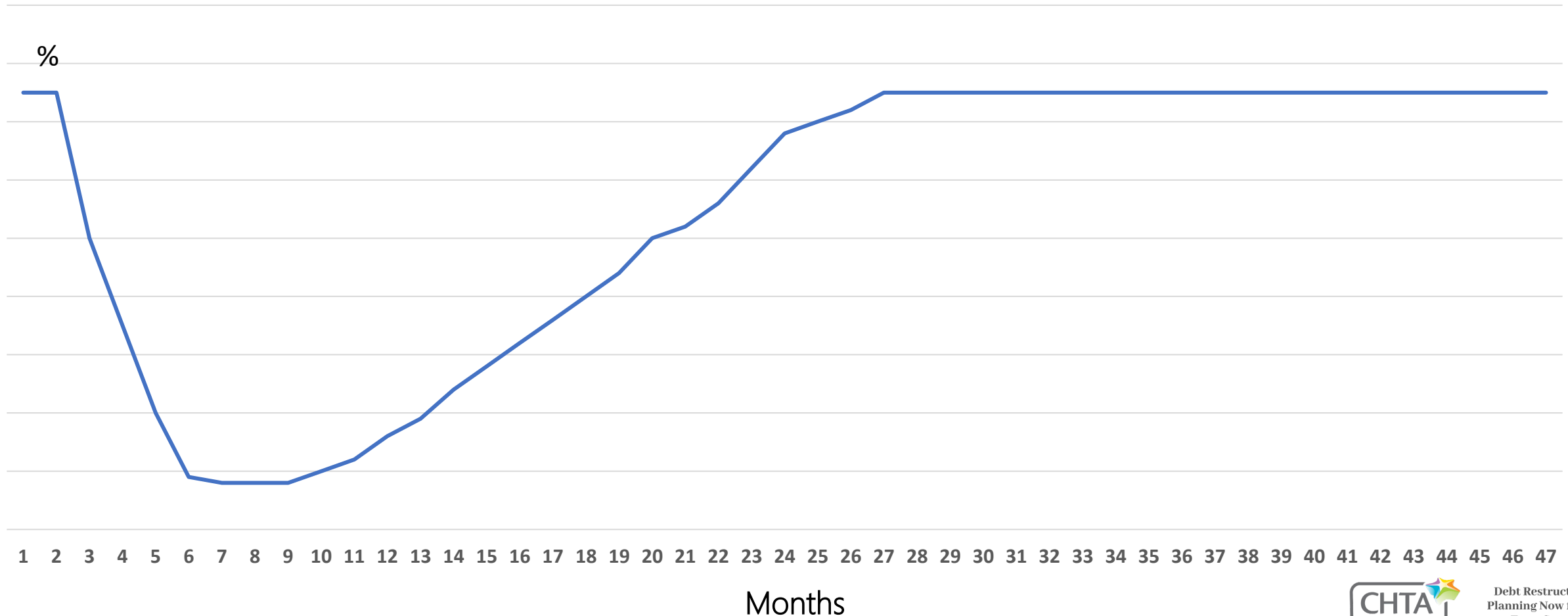
Debt Restructuring:
Planning Now for Long
Term Survival
Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

But A Longer Period of 24 – 30 Months More Likely to Recover Occupancy



LUXE CAPITAL

Occupancy % by Month

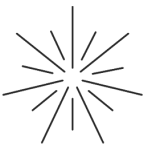


Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

ADR Rate Recovery Could Take Over 36 Months

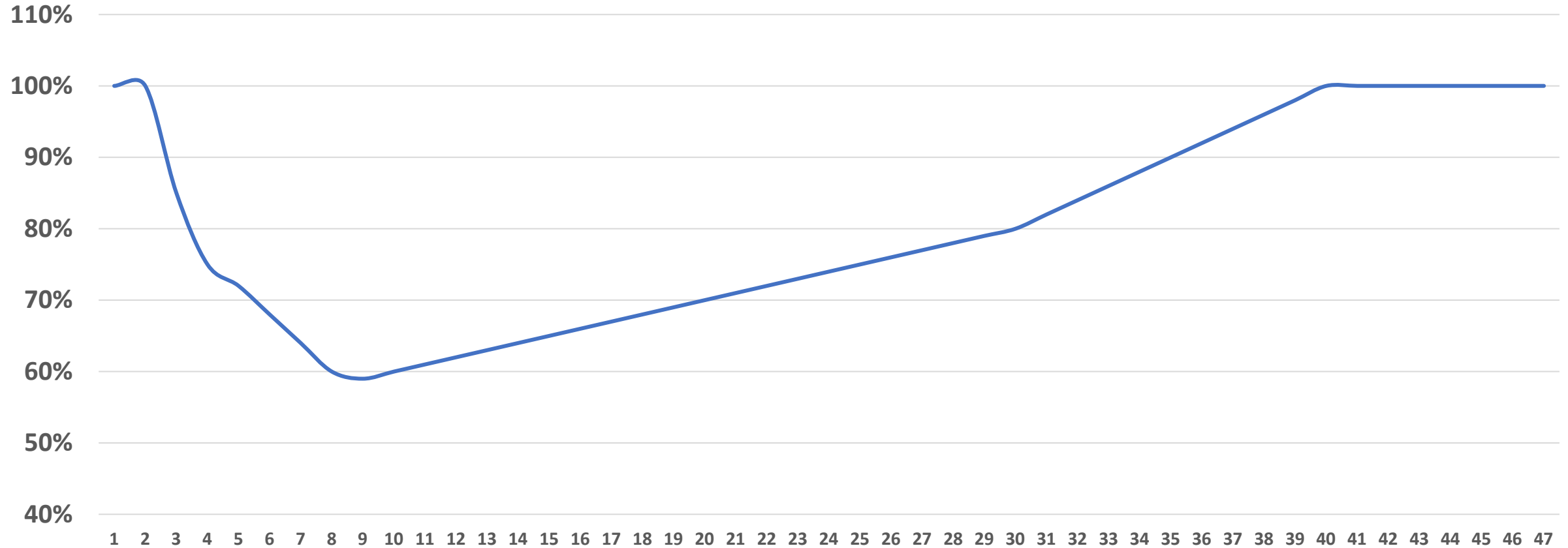
Depending upon how aggressive hotels discount rates over the coming months



LUXE CAPITAL

ADR Rate Recovery

Starting Point: 2019 Months = 100



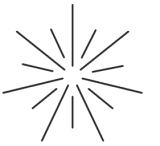
Months



Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

The Shape of the Curve is Very Important



LUXE CAPITAL

Many Hotel Owners and Bankers are still thinking about a “U” shaped recovery curve.

U

VS

Historical restructuring experience and current research tells us to expect a “Nike” shaped recovery curve.



Registered trademark of NIKE, Inc.

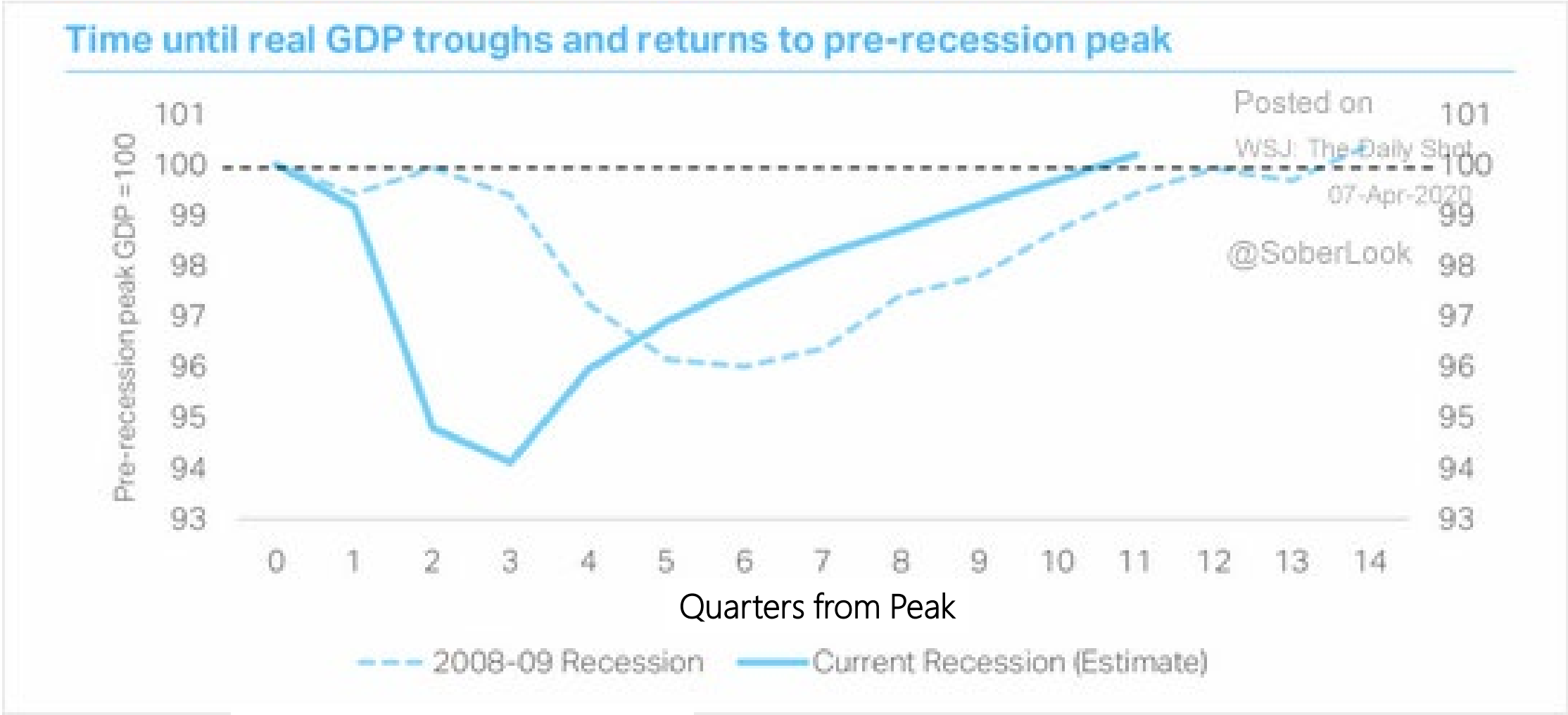


Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

Wall Street Journal Projection of U.S. GDP Recovery

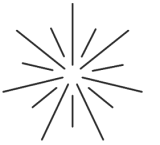
As of yesterday, April 7, 2020.



Source: The Wall Street Journal



General Situation from the Bank's Perspective



LUXE CAPITAL

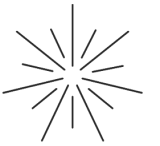
- Some banks and owners are initiating preliminary discussions to request adjusted repayment terms.
- Other banks are preparing internal approvals for a sectoral program of special terms.
- Some banks are considering eliminating principal repayments for 6 months or until the end of 2020.
- Most banks want to continue to collect interest whenever possible.
- Every lending institution is unique.



Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

What is Best for Your Hotel ?



LUXE CAPITAL

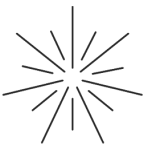
Six to 12 Month Postponement of Principal Payments:

- This approach assumes a “U” shaped recovery.
- Reaching an agreement will be faster, because this is what banks want to hear.
- Nevertheless, another restructure negotiation will be needed before the end of 2020 – beginning of 2021.

Comprehensive restructuring based upon research and projections:

- This approach assumes a “Nike” shaped recovery curve.
- Detailed long term financial projections based on research.
- Submit a comprehensive loan restructuring package to the bank.
- Get this done at the depth of the crisis.

Program Solution vs Customized Solution



LUXE CAPITAL

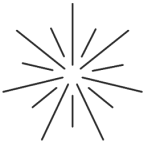
Six to 12 Month Postponement of Principal Payments:

- This is a “Program Solution”.
- Use standardized terms suggested by the bank.
- The repayment terms are possibly more reflective of the wishful thinking of the creditor than the realities of the particular hotel and its owners.

Comprehensive restructuring based upon research and projections:

- This is a “Customized Solution”.
- The repayment terms are negotiated around the most likely real-world conditions the hotel and its owners are likely to face.
- The outcome should reflect a schedule the owners can live with.

Conclusions and Recommendations



LUXE CAPITAL

- Because most hotel loans are collateralized by a first mortgage and liens, the issue of how to handle the loan restructure becomes a “bet the company” dilemma, sooner or later.
- The depth and length of the COVID-19 crisis, the future for airline flights, tour operators and consumer behavior are still not known.
- This is not a situation in which to improvise.
- Preparation of a thorough new business plan and custom-made restructuring is best for long term health and survival of the hotel.



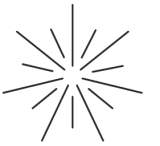
CARIBBEAN
HOTEL & TOURISM
ASSOCIATION



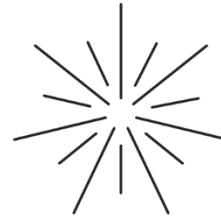
Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET

Contact Information



LUXE CAPITAL



LUXE CAPITAL

George Spence

gspence@luxecapitalamericas.com

1 (809) 669 3905

1 (305) 753 2616

www.luxecapitalamericas.com

Luxe Capital Americas provides advisory services to resort owners and developers in the Caribbean and Latin America regarding debt and equity financing, resort concepts, development, branding, sales of existing resorts and expansion through acquisitions and mergers.



CARIBBEAN
HOTEL & TOURISM
ASSOCIATION

April 8, 2020. George Spence Luxe Capital Americas



Debt Restructuring:
Planning Now for Long
Term Survival

Wednesday, April 8th, 2020
2:00 – 3:00 P.M. ET



Debt Restructuring:
Planning Now for Long Term Survival

#CHTALive

Thank You for Attending!

CHTA COVID-19 Resource Center:
caribbeanhotelandtourism.com/covid-19/

Next Week:
HR Strategies and Solutions to Support
Business Continuity Webinar

Get in Touch!
Join our Mailing List
caribbeanhotelandtourism.com
membership@caribbeanhotelandtourism.com