Parked at the gate

M&A trends in travel, leisure, and hospitality

2022

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Introduction

Consumers spur sector rebound, but economic turbulence shakes dealmakers

Robust consumer spending propelled the ongoing post-pandemic rebound in the travel, leisure, and hospitality (TLH) segments in 2022, spurring companies to pursue deals to broaden their reach and scale while building brand loyalty with customers. Asset-level acquisitions were popular in the first half of 2022, as hoteliers in particular tapped relatively cheap financing to buy properties in anticipation of a summer surge in room and service demand. Extended stay and alternative accommodations remain popular with travelers and are a growing segment for the industry.

As the year progressed, however, soft business travel, labor shortages, rising interest rates, and economic uncertainty created both motivation for and headwinds to M&A deals. Some buyers used acquisitions to improve operations and park cash in anticipation of a challenging first half of 2023. Few were willing to pursue megadeals, while others simply avoided dealmaking in the sector altogether.

As a result, the total value of deals in the TLH sector sank 72 percent in 2022 to $62.5 billion from a banner 2021, when $224.8 billion worth of deals were completed. As the U.S. Federal Open Markets Committee aggressively raised rates to fight inflation, companies reconsidered deal making as they adjusted to the new normal of higher capital costs and assessed the impact of inflation and potential labor stress in the sector on consumer satisfaction. Deal volume tailed off in the second half of 2022.

For buyers active in 2022, a few key trends, all around diversification, emerged. Responding to consumer appetite for high-quality travel and lodging, companies like Choice Hotels, which purchased Radisson Hotels Americas for $675 million, moved into upscale properties to better serve customers and capture higher-margin revenue. Others such as Dave & Buster's Entertainment, which bought Main Event Entertainment for $835 million, expanded geographically to build scale and accelerate growth. Boyd Gaming, meanwhile, doubled down on gaming and leisure offerings to meet consumer demand for better, more immersive entertainment in yet another expanding trend.

While consumers kept spending in the sector—a sign of the durable shift in demand to services and experiences from products—labor shortages within the industry created service disruptions that will continue to be a challenge to service quality.

Diane Swonk, the chief economist at KPMG, points out that employment in TLH has yet to return to pre-pandemic levels. Many operators are pushing higher rates at the expense of occupancy in an effort to both drive profitability and maintain service levels when they are unable to find enough staff to operate at full occupancy. We expect many of these conditions to persist throughout 2023.

Braden Mark
Partner
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Key statistics

-10% decrease in total number of TLH deals from 1,245 in 2021 to 1,116 in 2022

-72% decrease in total TLH deal value from $224.8 billion in 2021 to $62.5 billion in 2022

14% PE share of TLH deals in 2022. However, PE buyers accounted for 52.4 percent of total value ($32.7 billion)

By the numbers

Caution reigns as industry adapts

Higher interest rates and discordant asset valuations tempered dealmaking in the TLH sector even as strong consumer demand for travel and experiential offerings bolstered industry performance. Both strategic and financial buyers mostly retreated from the bigger deals that characterized transactions in 2021, tending instead to focus on asset purchases and smaller transactions.

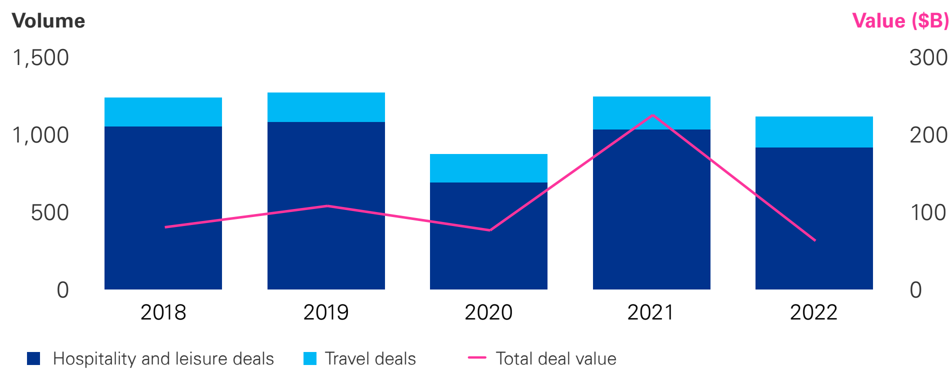
As a result, the average deal value for the TLH sector in 2022 was $56.0 million versus $180.6 million in 2021. And while the number of deals dropped by just 10 percent to 1,116 in 2022 from 1,245 in 2021, the total value of deals plunged 72 percent to $62.5 billion from $224.8 billion.

That's not to say that big deals did not get done—Blackstone's acquisition of Crown Resorts ($6.3 billion) and Apollo Global Management's acquisition of Atlas Air Worldwide ($5.2 billion) both topped $5 billion, ranking them along with JetBlue Airways' $3.8 billion purchase of Spirit Airlines as the largest acquisitions in 2022.

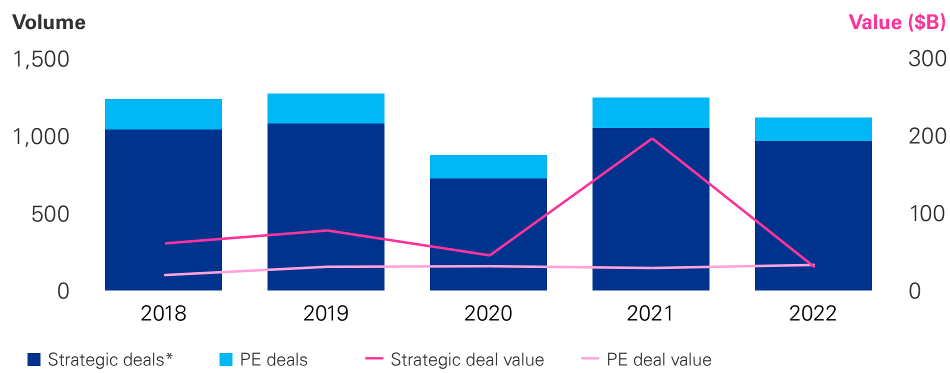
Top TLH deals in 2022

Acquirer	Target	Value (billions)
Blackstone	Crown Resorts	$6.3
Apollo Global Management	Atlas Air Worldwide	$5.2
JetBlue Airways	Spirit Airlines	$3.8
Horizon Acquisition Corp. II	Flexjet	$3.1

U.S. TLH activity by sector



U.S. Strategic and PE TLH deals



*Includes 14 SPAC deals in 2022 with a value of US$5.7B

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2022 and 12/10/2022. U.S. deals are defined as deals with a U.S.-based buyer or seller. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal outcomes.

By the numbers

Travel M&A trends

Big, small, and not much at all

Three deals in travel of more than $3 billion accounted for over 70 percent of the total 2022 transaction value for the segment. Slightly fewer deals were done in 2022 than in 2021—201 versus 215—but the overall value of deals done in travel plunged 84.9 percent to just $17.1 billion from $112.9 billion the year prior. Financial buyers retrenched, launching just 19 transactions, the lowest number of deals in more than five years, and a sharp decline from the 35 in 2021.

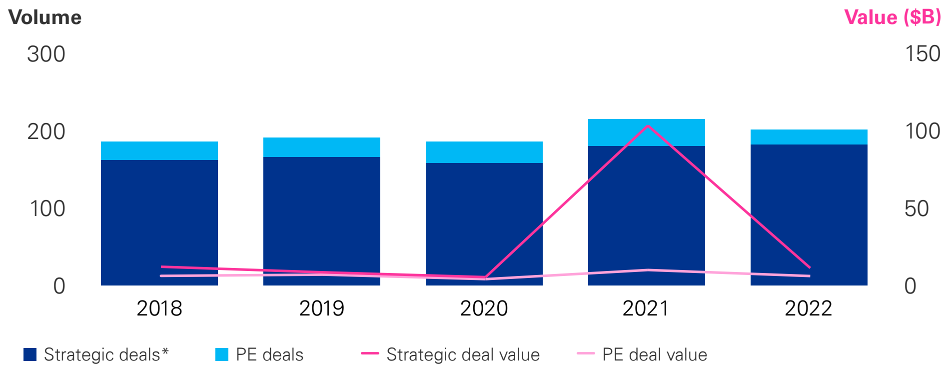
Even with excess capital to invest, private equity remained cautious as rising rates increased acquisition borrowing costs and company valuations fluctuated with changes in the U.S. economic outlook. That said, falling stock prices, higher fuel costs, and rising employee wages in the airline industry presented Apollo Global Management and other investment firms the opportunity to bet big on aviation services and air-freight company Atlas Air in the year's largest acquisition in the segment.

Strategic buyers continued to actively acquire tuck-in assets, driving the total number of deals in 2022 to 176 from 174 in 2021. The average size on these deals was $40.6 million, down from $247.3 million the year prior.

Travel deal volume and value by subsector

2022

201 deals	$17.1 billion
-6.5%	-84.9%



Top travel deals in 2022

Acquirer	Target	Value (billions)
Apollo Global Management	Atlas Air Worldwide	$5.2
JetBlue Airways	Spirit Airlines	$3.8
Horizon Acquisition Corp. II	Flexjet	$3.1

By the numbers

Leisure and hospitality M&A trends

While consumers traveled, dealmakers stayed home

Despite continued strength in consumer demand for leisure services, conditions in the leisure and hospitality sector remained choppy in 2022, especially since business travel has yet to return to pre-pandemic levels. The Global Business Travel Association now says that business spending won't fully rebound until at least 2026, a sign that headwinds for that portion of the segment will continue. Whether consumer spending—and the potential return of tourism from Asian countries—offset weakness in business travel and a more aggressive Fed is unclear.

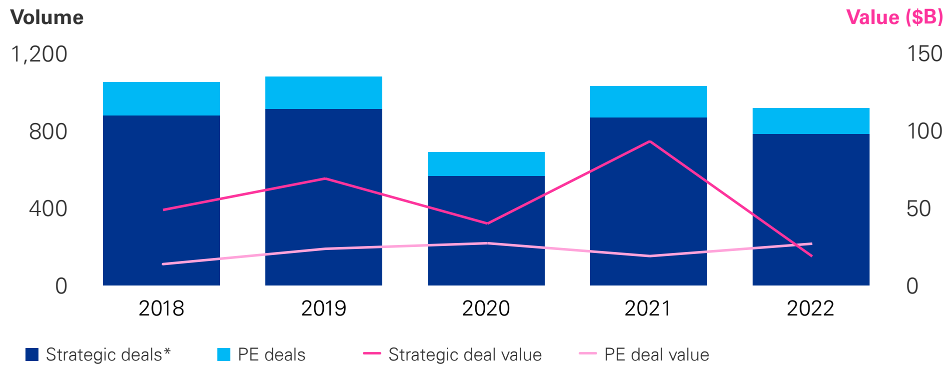
These factors were a drag on M&A activity in leisure and hospitality in 2022. As in travel, the total value of deals collapsed in 2022, falling 59.4 percent to $45.4 billion from $111.9 billion in 2021. The total number of deals also declined, though less dramatically, to 915 from 1,030 in 2021. The falloff was especially pronounced in Q4, when just 170 deals were announced after three consecutive quarters of more than 200 new deals.

Two deals in the sector topped $1 billion this year, Blackstone's $6.3 billion Crown Resorts purchase and Churchill Downs' acquisition of Peninsula Pacific Entertainment for $2.8 billion. That latter deal was done to expand Peninsula Pacific geographically and build its audience, a trend we also saw from companies like MGM Casino, which bought Sweden's LeoVegas, and Dave & Buster's, which acquired Main Event Entertainment.

Leisure and hospitality deal volume and value by subsector

2022

915 deals	$45.4 billion
-11.2%	-59.4%



*Includes 8 SPAC deals in 2022 with a deal value of US$1.7B

Top leisure and hospitality deals in 2022

Acquirer	Target	Value (billions)
Blackstone	Crown Resorts	$6.3
Churchill Downs	Peninsula Pacific Entertainment	$2.8
Dave & Buster's	Main Event Entertainment	$0.8

By the numbers

PE M&A trends

Big deals belie uncertainty

While private equity slowed its volume of dealmaking in the TLH sector in 2022, the total value of deals from financial buyers ticked up, as did the segment's overall representation in deal value within the sector. PE-backed deals accounted for 52.4 percent of TLH's total M&A transaction value in 2022. The total value of deals was $32.7 billion, up 14.3 percent from 2021, while the total number of deals fell 23.7 percent to 151. That pushed the average deal size in the segment to $216.8 million from $144.7 million in 2021, the highest average deal value for PE-related transactions in the TLH sector in at least five years.

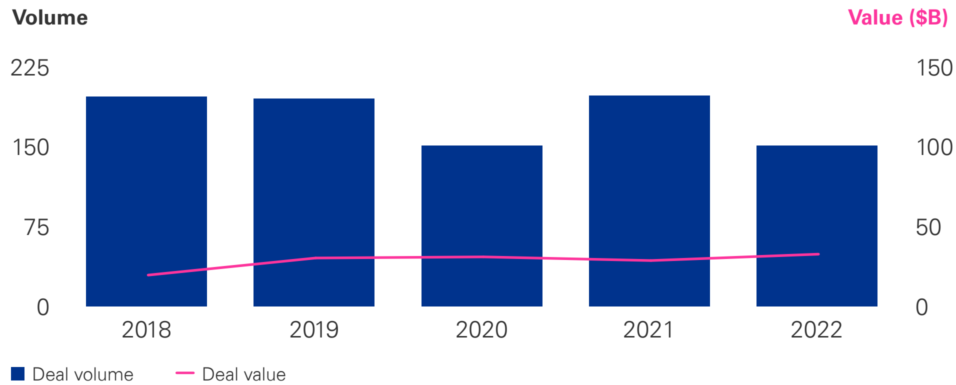
Two $5 billion-plus deals represented 35.1 percent of the overall deal value by financial buyers. In February, Blackstone closed its $6.3 billion purchase of Crown Resorts, an Australia-based gaming company. Apollo Global Management, with J.F. Lehman and Hill City Capital, bought Atlas Air for $5.2 billion. Aside from those, PE focused mainly on smaller acquisitions. Hornblower Group, a portfolio company of Crestview Partners, snapped up Journey Beyond in the next largest PE-related deal at $430 million.

PE deal value and volume

2022

151 deals
-23.7%

$32.7 billion
+14.3%



*Includes SPAC deal volume and value

Top TLH PE deals in 2022

Acquirer	Target	Value (billions)
Blackstone	Crown Resorts	$6.3
Apollo Global Management	Atlas Air Worldwide	$5.2
Hornblower Group	Journey Beyond	$0.4

Deep dive

Business travel remains on standby

As COVID-19-related travel restrictions eased over the past year, the leisure segment of the hospitality industry took off, and 2022 performance in many resort and leisure markets was the strongest in recent history. The same cannot be said for the majority of hotels that depend on conventions and business travel, leading many owners and investors to wonder what's next for these assets.

The near term for large group/business hotels isn't pretty: after earlier forecasts trended bullish for recovery by the end of 2024, the Global Business Travel Association now forecasts that business travel won't return to prepandemic levels until 2026.[1] It was widely reported that major employers such as Google and Microsoft, for example, had begun tightening budgets by late summer, limiting employee travel to "business critical." In early fall, Alphabet and Google CEO Sundar Pichai told a restive employee audience that by limiting such expenses, "…[W]e are being a bit more responsible through one of the toughest macroeconomic conditions underway in the past decade."[2]

Coupling continued lags in performance with increasing financing costs and significant pending debt maturities, some market participants believe there will be a number of bankruptcies and foreclosures before the segment normalizes.[3]

Owners that are facing maturing debt and significantly higher refinancing costs may be forced to sell at a discount to pre-pandemic valuations. In addition, the level of buyer interest and competition that propelled values in resort and leisure markets throughout the last 24 months is notably absent. Some of our clients tell us they are worried about making outsized bets—e.g., large $100+ million investments that require significant financing, often for large urban and convention center hotels —and are more inclined to consider smaller, $30 million to $40 million deals that are typically in so-called select-service and leisure travel markets. Owners of distressed properties that are not forced to sell or are unable to—for instance, those in core urban markets where costly, highly leveraged acquisitions are less likely to come along to rescue them—will have to continue to hold their assets until the segment rebounds.

There is one bright spot in the business travel hospitality segment: so-called middle-market assets with fewer amenities and lower rates that cater to nonwhite-collar business. Thanks to the federal Infrastructure Investment and Jobs Act, which earmarked $550 billion through 2026 in infrastructure projects, owners are envisioning solid bookings over the next year and beyond as construction crews fan out across the country.

As infrastructure funds rolled out in 2022, one beneficiary, Wyndham Hotels, reported consecutive quarters of double-digit growth over 2019, according to President and CEO Geoff Ballotti, with 70 percent of its business travel attributed to infrastructure business. According to Ballotti, these are "the companies being contracted to repair our nation's highways and bridges and ports. And it's those companies that book these blue-collar workers into economy midscale lodging that is just so attractive for our brands and for our hotel owners... So, significant tailwinds for our team."[4]

Many of the assets that stand to benefit from this new type of business travel tend to be the smaller, suburban, select-service assets so favored by investors who can underwrite and complete deals with limited leverage. We expect competition for deals in this space to be strong throughout 2023 and 2024.

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[1] "Global Business Travel Spending is Coming Back but Recent Headwinds Push Anticipated Full Recovery into 2025 and 2026," GBTA, Aug. 15, 2022

[2] "Google CEO Pichai tells employees not to 'equate fun with money' in heated all-hands meeting," CNBC.com, Sept. 23, 2022

[3] "U.S. Bankruptcy Tracker: Hotel Filings Rise Amid Virus Spike," Bloomberg.com, Jan. 19, 2021

[4] "Hotel Executives Bullish on Business, Group Demand in 2023," CoStar.com, Nov. 14, 2022

Outlook

Consumer is king as industry navigates choppy economy

As the industry adjusts to the reality of higher interest rates, more deals are likely to emerge, especially those involving corporate/strategic buyers seeking synergies and scale. Private equity and financial buyers, meanwhile, will be less motivated to act until sellers lower their price expectations to reflect the higher cost of capital to fund transactions. Deals involving pressured sellers will reprice the market, aiding price discovery and fueling more M&A volume in the third and fourth quarters of 2023.

For strategic buyers, the challenge to acquisitions in 2023 will be understanding deal benefits under various economic scenarios and evaluating deal financing options. Financial buyers, with plenty of capital to invest, will be more active as the bid-ask spread on deals narrows.

This upsurge in deal activity will come as the U.S. emerges from a mild recession in the second half of the year. The Federal Reserve, expecting to hit an upper boundary for rates of about 5.25 percent by May 2023, said at its December 2022 meeting that it doesn't plan to cut rates at all in 2023. That said, KPMG Economics anticipates that the Fed may cut rates in Q4'23, on the way to neutral rates sometime after 2024.

As for industry fundamentals, companies will continue to grapple with worker shortages while they explore new ways to attract, engage, and develop their workforce. By using technology to streamline service, investing in the employee experience, and reimagining strategies for attracting new talent, organizations can overcome these challenges and build stronger employer brands in the labor market.

There are several ways the sector can turn this disruption into opportunity. Strategies include hiring workers with transferable skills from other industries, adopting inclusive recruiting strategies and flexible work arrangements, and better aligning the company's purpose with employee values. Even if the unemployment rate rises during a potential recession, this labor trend is unlikely to change and could possibly endure for another decade. Consumers will push against these headwinds. We expect them to continue to spend in the sector in the face of soft economic conditions and provide a continued base of support for a rebound.

Key considerations as we look ahead

In pursuing M&A in an economic downturn, TLH dealmakers will need to recalibrate their focus to ensure success:

1. For strategic buyers, model synergies in the context of various economic scenarios to stress test deal assumptions.
2. Fully understand the current terms for and availability of capital at all levels of the financing structure.
3. Do thorough due diligence prior to the deal to avoid surprises later on.

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With a TLH specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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