Getting creative

M&A trends in travel, leisure, and hospitality

2023

kpmg.com

Introduction
p.2

By the numbers
p.4

Deep dive
p.6

Outlook
p.7

Introduction

Companies find creative ways to land new customers as big M&A slows

M&A volume and aggregate deal values in the travel, leisure, and hospitality (TLH) segment remained subdued in Q4 '23, capping a year-long trend of retrenchment as companies and investors contend with difficult financing conditions amid high interest rates. Not in a position to sustain hefty leveraged purchases or willing to pay the high asking prices currently on offer for assets, buyers have pursued smaller and/or innovative deals aimed at market and segment expansion.

Major hotel brands, for one, have reprioritized their focus on capturing leisure travelers–including catering to blended "bleisure" travelers–who returned in force after the pandemic while traditional business travel lagged. To diversify in leisure segments, major brand companies have pursued tuck-in acquisitions to round out their portfolio of brands and geographies. Marriott International, for instance, closed its $100 million purchase of City Express in May, filling a gap in its brand portfolio for affordable rooms in Latin America and the Caribbean.

Late in the year some bigger deals did begin to emerge, a sign of the slowly improving health of dealmaking in the segment. Generally involving some form of financing and more complex execution, these larger deals are evidence of companies' sustained interest in capturing inorganic growth opportunities as they present themselves.

In November, Six Flags Entertainment lined up $3.1 billion of financing for its $1.9 billion all-stock merger of equals with amusement park operator Cedar Fair. A part of that–a $2.3 billion, 364-day term loan–will likely be taken out with longer-term financing as expected Federal Reserve rate cuts begin next year and financing costs come down. KPMG Economics forecasts that the Fed is done raising rates this cycle and will make its first cut in May '24 if the core Personal Consumption Expenditures (PCE) Price Index reaches a target 3 percent rate.

In the absence of strategic dealmaking, companies continued to pursue organic growth and business transformation, including experimenting with new forms of partnerships that extend distribution and tap into new customer channels. "When you have dollars to put to work and an ROI to create for your shareholders, you need to find new ways to transform your business when M&A is not a good option," said Daniel Fischer, KPMG Strategy's Travel, Leisure, and Hospitality Lead. (See Deep dive within.)

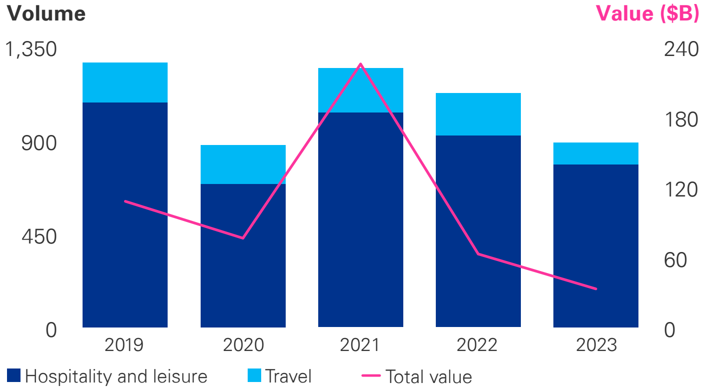
Whatever the approach, companies remain creative about capturing new customers while they wait out this constraining environment for M&A deals.

Braden Mark
Partner,
US Travel, Leisure, &
Hospitality Sector Leader

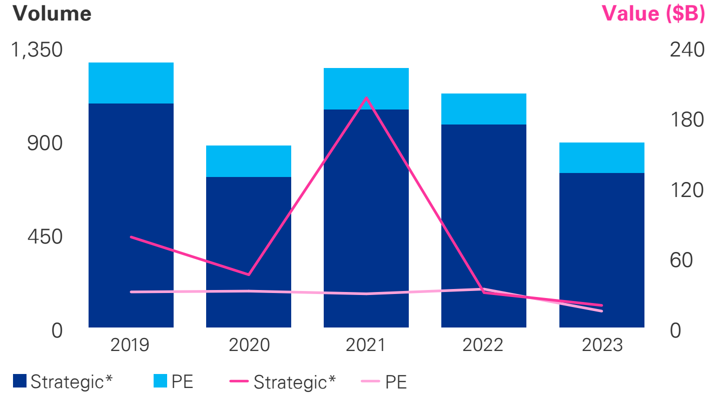
Q4'23 highlights

199 deals ▲ **2.1%** increase QoQ | **$10.4** billion deal value ▼ **-28.4%** decrease QoQ

TLH deal activity by sector



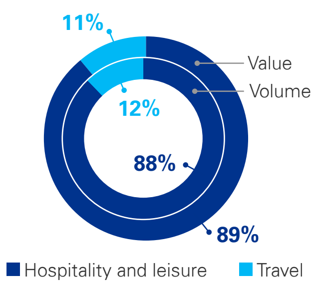
TLH deal activity by type



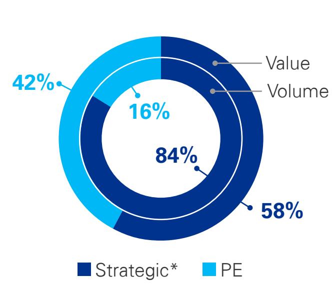
Q4'23 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix



PE/Strategic mix



By the numbers

TLH

Smaller deals, but green shoots emerge

In 2023, the annual total deal value and volume in the TLH segment hit a low point not reached even during the height of the COVID pandemic. Expensive financing proved a greater deterrent to dealmaking than even the logistical and economic disruptions of lockdowns could.

Year over year, total deal value sank 47.7 percent to $32.7 billion, while the total number of deals fell 21.0 percent to 888, nearly matching the 874 total of announced deals in 2020. In other years over the past five, more than 1,100 deals were announced.

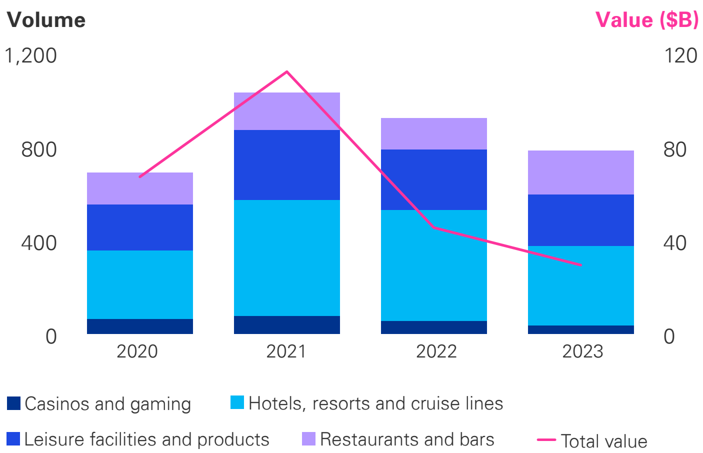
We saw the trend toward smaller transactions in the lower average deal size last year. On average, deals in 2023 were $36.8 million; in 2022 they were $55.6 million. Four strategic acquisitions topped $1 billion–all announced in Q4–including the Six Flags/Cedar Fair $1.88 billion merger.

In the hospitality and leisure sector, and indeed the TLH segment overall, private equity took honors for the largest deal of the year: Roark Capital Group bought sandwich chain Subway for $9.55 billion.

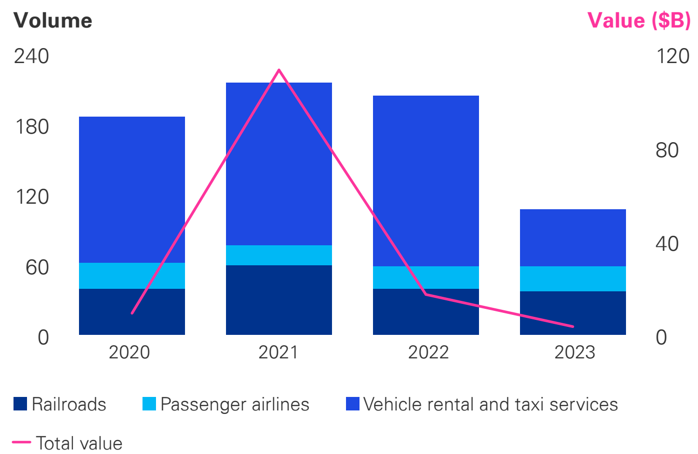
Q4'23 highlights

888 deals ▼ **-21%** decrease YoY | **$32.7** billion deal value ▼ **-47.7%** decrease YoY

Hospitality and leisure deals by subsector



Travel deals by subsector



Top strategic deals

Acquirer	Target	Rationale	Value (billions)
Czechoslovak Group	Vista Outdoor	Acquisition of sporting products segment to grow hunting and shooting industry category	$1.91
Alaska Air Group	Hawaiian Holdings	To build a stronger airline serving the West Coast and Hawaii markets	$1.9
Cedar Fair	Six Flags Entertainment	Become the main player in amusement parks with a diversified and expansive footprint	$1.88
Hilton Grand Vacations	Bluegreen Vacations Holding	Expand Hilton Grand Vacations' offerings and enhance vacation experiences	$1.5

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and majorly excludes asset purchases/minority purchases. The values and volumes data cited are for US deals announced between 1/1/2023 and 12/31/2023. 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 any changes.

By the numbers

PE M&A deals

Dry powder, but few opportunities

Notwithstanding the Subway buyout, executing private equity-backed deals remained challenging in 2023. Though PE funds had accumulated more than $2.6 trillion of capital through year's end, it has been difficult putting this dry powder to work given the nagging expectations of a recession (which didn't appear in 2023) and the persistently high cost of debt financing (which could come down in 2024). What is more, the mismatch between asking prices and valuations has kept sellers on the sidelines, leaving PE buyers eagerly awaiting would-be deals.

While the number of PE-backed deals remained consistent year over year (146 versus 150 in 2022), the value of deals plunged by more than 57 percent to $13.9 billion, with the $9.55 billion Subway buyout accounting for the lion's share of that total. After that, the $1.1 billion Bain Capital acquisition of upscale Brazilian steakhouse chain Fogo de Chao was the largest PE deal of 2023. The top five PE deals in the sector this year totaled 90 percent of overall yearly value.

Top PE deals

Acquirer	Target	Rationale	Value (billions)
Roark Capital	Subway	Gain advantage in a competitive market by combining Subway's brand and global presence and Roark's industry expertise	$9.55
Bain Capital	Fogo de Chão	Support the restaurant concept's growth and expansion	$1.1
Credit Suisse, Trinity Investments	The Diplomat Beach Resort	To cater to a wide range of market segments	$0.835
777 Partners	Everton Football	Fits 777 Partners multi-club investment model	$0.685

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and majorly excludes asset purchases/minority purchases. The values and volumes data cited are for US deals announced between 1/1/2023 and 12/31/2023. 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 any changes.

Deep dive

Building with partners

Companies are finding creative new ways to improve their product offerings and expand customer reach through unique partnerships while conditions for M&A remain difficult. From loyalty program partnerships to pursuing more complex deals to extend property networks and find cheaper ways to distribute room inventory, these tie-ups reflect TLH companies' continued efforts to stoke growth and bolster branding as they wait for acquisition-friendly conditions to return.

A poster child for this experimentation is InterContinental Hotels Group's partnership with Iberostar Hotels & Resorts. Last year the two forged a strategic alliance to offer access to up to 70 Iberostar all-inclusive resorts as a new brand within IHG's portfolio of properties. The family-run Iberostar is retaining ownership of its assets, while gaining access to IHG's enterprise platform, occupancy forecasting models, and loyalty program.

"It is a model the industry is watching closely," said KPMG's Fischer. "The focus is on building a true strategic partnership, while maintaining both companies' autonomy."

Success here means that others will certainly imitate the model, Fischer said. Though not nearly as extensive or complex an alliance, MGM Resorts and Marriott International signed a long-term licensing agreement last year under which specific MGM properties would be available through Marriott's booking channels in early 2024. It follows similar arrangements IHG, The Venetian Hotel, Wyndham Resorts, and Caesars Entertainment have pursued in recent years.

These are just some of the ways companies are teaming up without selling out. Loyalty-program sharing is among the simplest, while creating omni-channel experiences for customers and deeper network distribution agreements are more complex. In every case, the goal is to build deep, long-lasting customer value and product richness.

Penn Entertainment, for one, has aggressively pursued the omni-channel route in gaming, live racing, and sports betting, and has inked partnerships to bolster this strategy. Last year, the company agreed to pay ESPN $1.5 billion in cash over 10 years plus warrants to buy Penn stock for the right to rebrand its US sports book ESPN Bet. The company has also partnered with concert promoter Live Nation and Choice Hotels to offer entertainment experiences under its PENN play loyalty rewards program.

"These partnerships each offer a different value proposition to pure-play M&A, but they are all strategic to advancing the growth agenda," said Braden Mark, KPMG's Sector Lead for TLH. "It's all about branding, distribution, and building your customer reach."

Daniel Fischer
Principal,
Strategy

Rick Arpin
Partner,
US Gaming Leader

Outlook

Waiting out a challenging cycle

The TLH sector will stay in wait-and-see mode on large, strategic transactions for now, until the financing environment improves and valuations begin to make sense again. PE, too, will wait out this challenging cycle, prepared to deploy a massive stockpile of capital once viable opportunities emerge. One potential acute tailwind for M&A in the hospitality space could come from the growing need for maintenance and renovation capital across assets, which was often times deferred during the challenging operating environment of 2020-2021. Rather than committing significant additional capital to existing assets, we believe some owners may choose to recycle that capital through sale of existing properties to new ownership which would complete the renovation. We believe we will begin to see greater momentum for M&A building in Q2/Q3 of 2024, and a more robust M&A environment taking hold as the year winds down.

As for the structural challenges facing the TLH sector, we may see some positive developments this year. The tight labor conditions that drove wage inflation in 2022 are beginning to ease. A key jobs indicator for the sector of openings-to-unemployed workers fell to 1.3 from 2.0, showing that while workers still hold the upper hand in the labor tug-of-war, companies are inching back toward equilibrium. That said, there were 1.2 million job openings in the sector at the end of the year.

To get creeping prices under control, companies will need to better tame short-term wage inflation since so much of the sector's cost base is tied to worker pay. The good news is we are already seeing some price relief. PCE prices for accommodations were down 6.2 percent, and airline PCE prices were down 8.3 percent at the end of last year.

A softening economy early in the new year could also help. KPMG Economics forecasts a slowing economy to begin 2024, accompanied by declining consumer consumption. This would only solidify the expectation that the Fed is done raising rates and will target its first rate cut of this cycle in Spring. On the plus side, where it once looked like consumer spending would peter out once all the pandemic-era savings was gone, we believe that real wage growth and an active labor market will provide tailwinds for the economy later this year.

A key realization for the industry has been the power of the leisure spender. Where companies once coveted business travelers, the slow path back to corporate spending has shifted the focus to pleasing consumers with a host of properties and services tailored to individual tastes. That is true, too, of companies offering outdoor recreation products and services. As more people try to live active, healthy lifestyles, demand in this segment has increased dramatically.

Key considerations

In pursuing M&A in an economic downturn, TLH dealmakers should consider the following:

1 Rates

High financing rates have choked off dealmaking. Rate cutting could ignite a buying spree in a frustrated M&A market.

2 The Fed

While we expect interest hikes are over for this cycle, a surprise could unhinge markets.

3 Tight labor markets

Workers still hold the upper hand in the services sector. If a softer economy pushes the unemployment rate higher, we may see a return to equilibrium.

4 Hail the leisure spender

Leisure consumption has powered the rebound in the TLH sector. Companies remain focused on aligning their product portfolios to attract consumer dollars and will continue to strategically diversify through focused acquisitions.

5 Strategic pivot

Companies are finding new ways to expand their networks, expose their brand, and add value to their portfolios. While M&A is one route, they are exploring creative ways to achieve this without buying assets outright.

Braden Mark
Partner,
US Travel, Leisure, & Hospitality Sector Leader

Daniel Fischer
Principal,
Strategy

How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value and leveraging its depth in the TLH industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle.

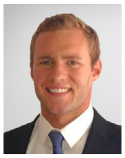
With a TLH specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

Authors

Braden Mark
Partner,
US Travel, Leisure, &
Hospitality Sector Leader
303-382-7980
bmark@kpmg.com

Rick Arpin
Partner,
US Gaming Leader
725-224-6180
rarpin@kpmg.com

Daniel Fischer
Principal,
Strategy
201-925-9915
danielfischer@kpmg.com



Will Powell
Director,
Strategy
212-954-4891
wbutdorf@kpmg.com

With special thanks to:
Ankita Baweja, Michael Bender, Nishtha Joshi, Tara Nelson, and John Thomas

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Please visit us: **kpmg.com**

DASD-2024-14344