THE TRAVEL DIARIES

THE ANNUAL UPDATE FROM THE BDO TRAVEL TEAM

THIRD EDITION | 2020

IDEAS | PEOPLE | TRUST

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WELCOME TO THE TRAVEL DIARIES

Welcome to the 2020 edition of The Travel Diaries, BDO's annual review of the key developments in the UK travel market.

This year we look back on what has been a very challenging year for the sector and discuss the changes that will follow as the sector looks to bounce back in 2021.

This year our external contributors include:

- Christopher Photi provides a superb assessment of the current regulatory regime and the cash crisis facing the sector;
- Rhys Griffiths covers the legal challenges presented by the coronavirus pandemic; and
- Liam McGuinness follows up on his 2019 domestic travel article and discusses the key changes facing the sector.

A big thank you to all of them.

Please get it touch with me if you have any questions.

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WHAT WE CAN EXPECT FROM THE CRISIS

What a terrible year for the outbound travel sector. I'm sure you will agree that 2020 has been the worst year for travel in living memory and our thoughts are with all the teams across the country dealing with the crisis. I recently read last year's edition of Travel Diaries and the predictions for 2020 were clearly way off the mark which is why the COVID crisis has been so hard to deal with as none of us saw it coming. Last year, we looked forward to a period where Brexit uncertainty was not rife and an uptick in deal activity. I think we would all take a bit of Brexit uncertainty now instead of the damage caused by COVID.

Unfortunately policy makers have not helped. It seemed that destination countries were being added to the quarantine list on a daily basis as the summer progressed. The daily updates caught everyone unaware, creating an unpredictable market for the consumer. The open holiday season of late June / early July was too short-lived and unfortunately with Lockdown 2 the outlook for travel operators appears extremely tough and expect further corporate failures as businesses run out of cash.

Before we cover what the future may hold, it is worth remembering what a success story the travel sector has been in recent years, accounting for 10% of global GDP and growing faster than global GDP. This success is down to the unrivalled emotions and memories travel gives us and that's why it will return strongly.

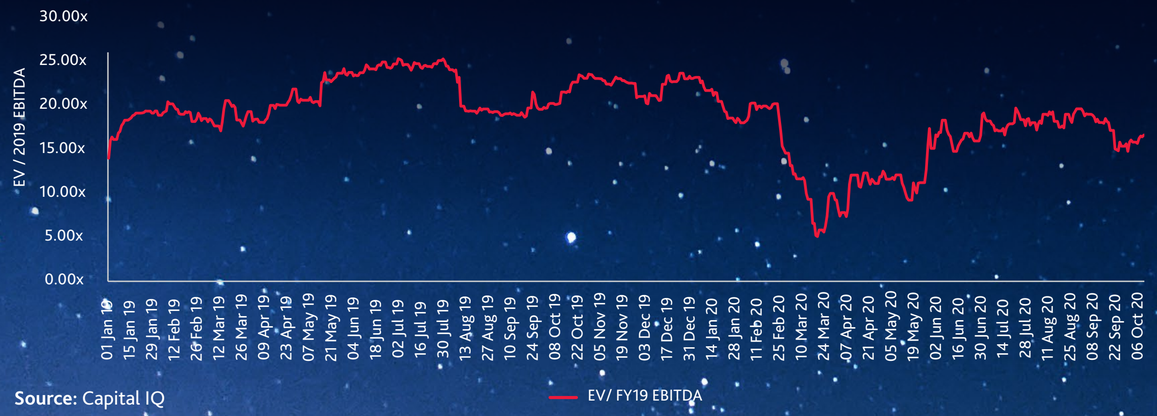
So what can we expect from the crisis?

CHANNEL SHIFT TO ACCELERATE

We have all got used to ordering everything online and travel is no different. These new shopping habits will stick and we're unlikely to go straight back to our old ways. Where a trusted adviser is required, this can still be delivered without leaving home so expect further pressure on retail models.

A look at the On The Beach's (OTB) share price indicates that investors hold this view. OTB is valued at 15x its 2019 (pre Covid) EBITDA, reflecting investor confidence that it will rebound strongly.

On The Beach Group (EV / FY19 EBITDA)



Source: Capital IQ

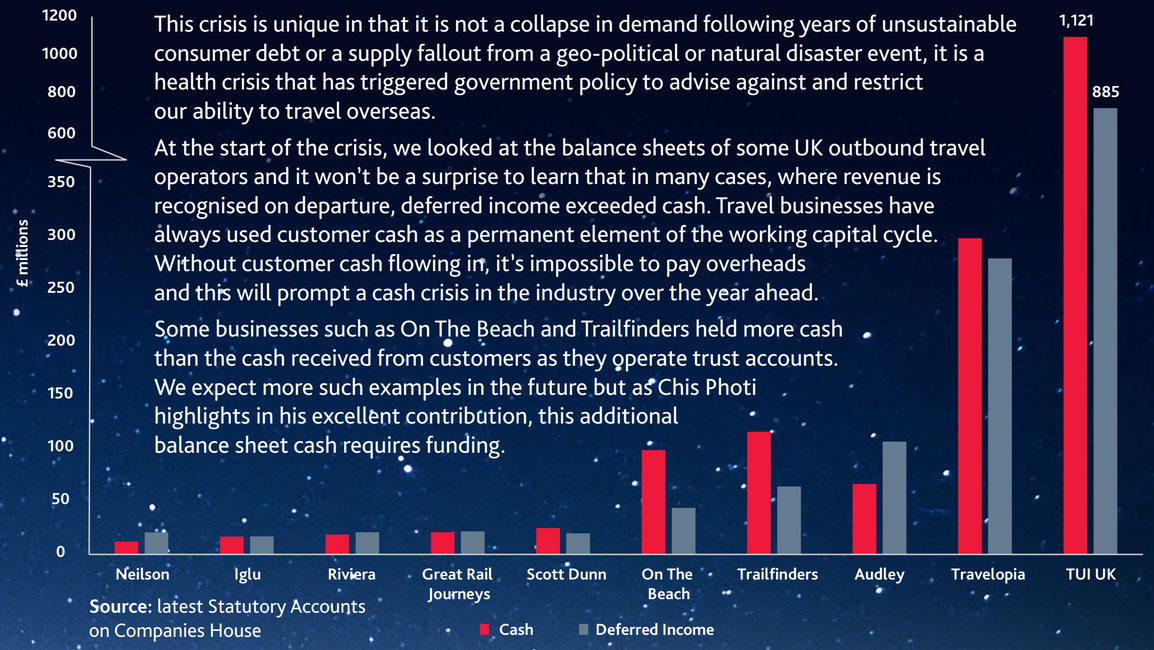
At the same time, retail-heavy brands such as Flight Centre have announced large-scale changes with half of its retail stores closing. We expect these two examples of a strong valuation upheld at an online player with low fixed costs, and a retail-heavy agent closing shops to be analogous to what's taking place across the UK.

THIS IS A CASH CRISIS

This crisis is unique in that it is not a collapse in demand following years of unsustainable consumer debt or a supply fallout from a geo-political or natural disaster event, it is a health crisis that has triggered government policy to advise against and restrict our ability to travel overseas.

At the start of the crisis, we looked at the balance sheets of some UK outbound travel operators and it won't be a surprise to learn that in many cases, where revenue is recognised on departure, deferred income exceeded cash. Travel businesses have always used customer cash as a permanent element of the working capital cycle. Without customer cash flowing in, it's impossible to pay overheads and this will prompt a cash crisis in the industry over the year ahead.

Some businesses such as On The Beach and Trailfinders held more cash than the cash received from customers as they operate trust accounts. We expect more such examples in the future but as Chis Photi highlights in his excellent contribution, this additional balance sheet cash requires funding.



Source: latest Statutory Accounts on Companies House

MORE TRAVEL BUSINESSES WILL FAIL

Sadly the failure of travel businesses is inevitable given it will be a long time until they can release profit from departures. Travel businesses have been running on fumes, surviving on deposits and cash received from advance bookings and delaying cash refunds to protect their liquidity. Merchant acquirers and the travel regulations will put businesses in a position where liquidity will get squeezed to the point of failure where new funds can't be sourced.

In other segments of the leisure sector, we have seen a wave of restructurings. A glance at the casual dining market tells a story of a frenzy of accelerated sale processes for household names such as Pizza Express, Côte, Zizzi, Ask Italian, Café Rouge, Bella Italia, Las Iguanas, GBK and Byron. We haven't seen this in travel (yet) as businesses went into the crisis with some cash and in the main have lower levels of operational leverage (rents and other fixed property costs). But the recovery will require funding and that's when we will see new winners and losers emerge.

In travel, thank heavens, we haven't seen mass corporate failures. STA, which had around a billion dollars of total transaction value (sales) worldwide, sadly went into administration in August 2020 leaving a big gap in the market for youth travel which will no doubt get filled by more tech-led players offering culturally-rich tours and activity trips. With that in mind, it is interesting to see Get Your Guide raise £100m last month.

Students of Schumpeter will recognise that when once in a lifetime shocks like this happen emerging gaps in the market will be replaced by more tech-savvy operators who provide more connectivity to the end product, de-layering the industry further through creative destruction.

THE MARKET WILL COME BACK

Confidence will return because it always does following a recession and those travel businesses still trading and with the firepower to acquire customers online will gain market share. On The Beach raised £140m in debt and equity in May 2020 to see it through Covid, fund acquisitions and to help fund the consumer rebound when it happens. Love Holidays has also raised further funds from its backers.

TUI research from the customer base in September 2020 suggested that 81% of those asked feel confident about travelling overseas by September 2021. Given the public's acceptance of lockdown measures, this appears to be a very encouraging number.

I imagine more affluent consumers, particularly the baby boomers, will be so bored from lockdown that they will start ticking off their "must visit" lists where it is safe to do so.

The ATOL licenced passenger volumes provides some interesting insights. TUI are down 1.8m passengers, or a third, from last year. On The Beach are down 25% and Love Holidays down 21%. All in a market where Thomas Cook's two and a half million passengers are up for grabs.

While outbound operators are experiencing severe difficulty, domestic UK operators will have experienced strong trading as consumers substitute overseas trips for domestic breaks. Anyone taking a break in the UK summer will have seen how busy and full everywhere was. As an example, I was speaking with a leading UK cottage rentals business in October that didn't take any bookings from late March to the end of May yet will still beat its EBITDA forecast this year by 30% as it saw a surge of new bookings from June onwards. We expect the domestic operators to continue to outperform, particularly the self-catering cottage segment, for a few years to come.

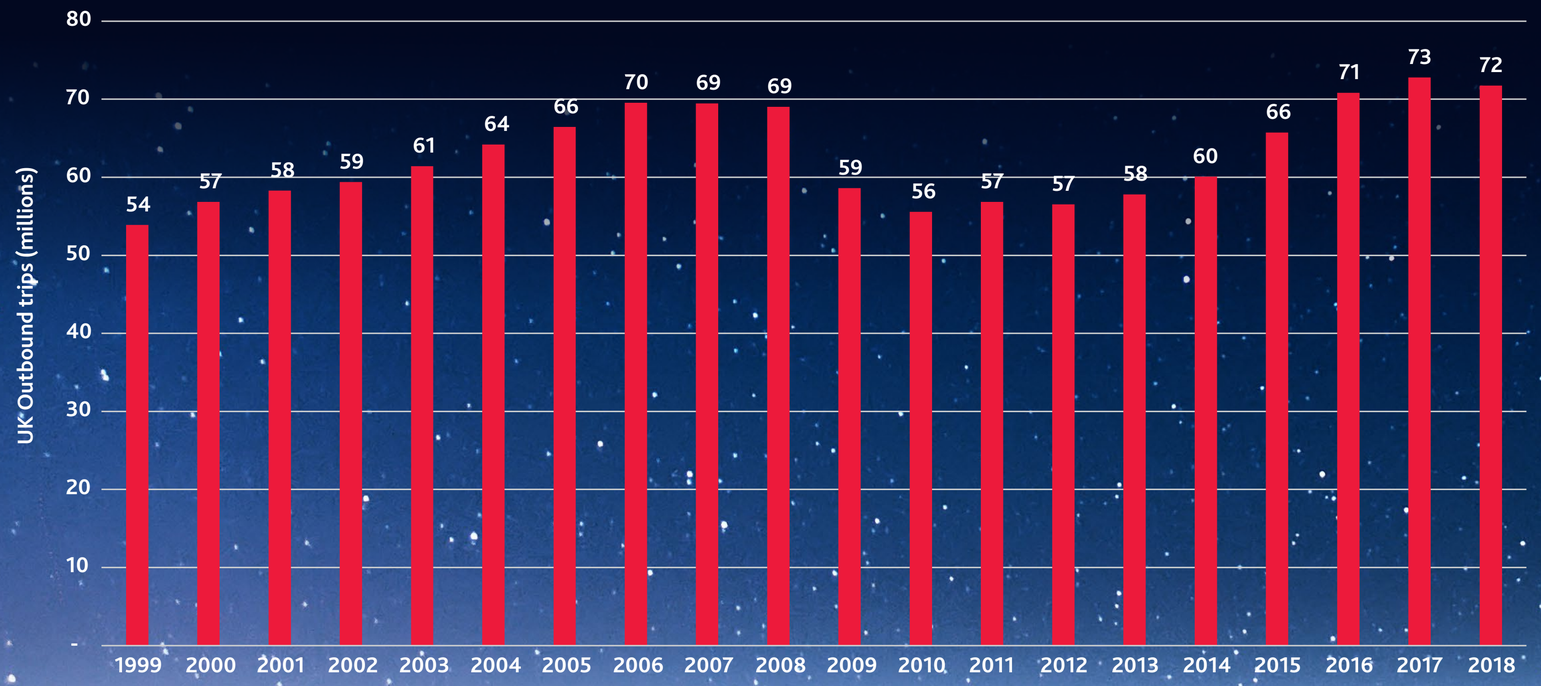
ATOL Licensed Passengers (Millions)

RANK	COMPANY	2019	2020	YOY GROWTH (19-20)
1	TUI UK	5.6	3.7	(33%)
2	Jet2Holidays	3.9	3.5	(11%)
3	Expedia	0.9	0.3	(64%)
4	On The Beach	1.6	1.2	(26%)
5	British Airways	1	0.6	(41%)
6	Love Holidays	1.4	1.1	(21%)
7	easyJet Airline	0.8	0.3	(57%)
8	BravoNext	0.6	0.4	(32%)
9	easyJet Holidays	n.a.	0.5	n.a.
10	Southall Travel	0.4	0.3	(20%)

Source: Civil Aviation Authority ATOL report

HOW LONG WILL THIS LAST?

Here's a chart from the ONS. This tells me it took six years for Brits to get back to pre-recession overseas travel volumes. If COVID can be defeated and vaccines look like they may be available in 2021, I expect a much quicker recovery following a prolonged period of no travel and huge pent-up demand for a break in the sun. Of course, the detail will show a mixed picture and the situation by income group will vary. We still do not know what the impact on unemployment will be when the government job retention support scheme comes to an end.



Source: ONS

SO WHAT NEXT FOR DEAL ACTIVITY?

The outlook for private equity-led primary buyouts looks tricky for outbound travel operators over the next 12 months. This is because new bookings are slow, departures are extremely uncertain and lenders are going to be extremely cautious. In the last recession it took a couple of years, to 2011, before private equity deal activity in the sector picked up.

However, that does not mean deal activity is off the cards. My prediction is the recovery will be deals-led where cash-strapped businesses will combine to cut costs and benefit from scale. I expect deal activity between corporates to increase, driving consolidation in the sector. Deals for domestic holiday parks, self-catering aggregators and other domestic travel business which appear to trading strongly since the crisis started will continue as before.

It is worth keeping an eye on fiscal policy. Rishi Sunak will borrow a staggering £350bn this year and if he wants to keep the pound and inflation in check in future years at some point he is going to have to get close to balancing his books. So it's a fair assumption that taxes will increase once the recovery has more of a predictable path and a likely rise to capital gains tax (CGT) has been well documented. So entrepreneurs will have a trade-off between higher net proceeds from a benign CGT regime (currently) and slightly depressed valuations as we come out of recession.

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THE CURRENT UK TRAVEL REGULATORY FRAMEWORK "STATE OF THE NATION"

At the time of writing, the UK is about to enter into its Second Wave Lockdown – holidays are banned for a month – yet another blow to a beleaguered travel industry that has been reeling since the autumn of 2019 and the failure of the desolately managed Thomas Cook Group. Regulators and larger travel entities would have run "war game worst case scenarios" but none of them could have modelled nor envisaged anything as damagingly impactful and all invasive as COVID-19. Look at the pre-2019 statutory accounts of larger travel entities and the principal risks and uncertainties disclosures in their strategic reports and identify which ones listed "global pandemic" as a significant risk.

The EU Package Travel Directive 2015, enacted in the UK in The Packaged and Linked Travel Arrangements Regulations 2018 ("PTR"), strongly driven by the UK and specifically ABTA and CAA, has been proven to be unfair and unworkable for travel companies in the current circumstances as evidenced recently in the resignations of On The Beach and Loveholidays from ABTA membership.

This has been exacerbated by the inability of regulators to make airlines timeously repay consumers in line with EU261 legislation.

The UK travel regulatory framework was already a very weak patient before COVID-19 impact. The CAA managed Air Travel Trust Fund ("ATTF"), after a massive >£500million hit from the failure of Thomas Cook, was, and remains, unfit for purpose with negligible funds available (Exactly how little can only be guessed as the Trustees have not published the ATTF accounts since 31 March 2018) albeit with the support of a £75million government supported bank facility. In 2008 the CAA unwisely - I am not saying this with hindsight as I said this at inception – reverted the ATOL scheme to a bond replacement per passenger levy scheme, principally in recognition of the difficulty Thomas Cook and TUI were having at the time sourcing needed ATOL bonding, with the catchy line "Just a quid" per passenger. Within two years the not so catchy "Just a £2.50" became a reality. Where will the levy go now?

The industry has been expecting another rebalancing ATOL consultation for the last year. It is surely coming but only when the overworked and under resourced CAA can find time to get around to it. What will be the main thrust of ATOL rebalancing? Almost certainly it will involve the wider implementation of the CAA Approved Trust model that is currently operated by companies such as On The Beach, Trailfinders and Travel Counsellors.

What of ABTA's bonding scheme for non-flight packages and agent pipeline monies protection? ABTA's Captive insurer, the government required back up fund to the ABTA bonding scheme, had £22m in it at 30 June 2019. What is in it now? It would be good to understand its current position. There is a lack of transparency here – both ABTA and CAA trumpet absolute clarity and transparency from their members and licence holders but do exactly the opposite when it comes to disclosing to the industry (and consumers) the extent of the back-up funds they fight so single-mindedly to protect.

ABTA have only two choices to protect their Captive. They can impose an additional premium levy on their members to top up the fund or seek their members to provide maximum protection bonds (This is the option ABTA are currently applying) when they can least access such bonds. Both these options in the current circumstances will be unpalatable to their membership which is diminishing. Frankly travel companies do not have excess liquidity and profitability leakage capacity to fund additional premiums nor to "invest" in ABTA's cash backed bonding scheme. ABTA members are struggling to source existing and lower levels of bonding from the insurance market – there is now virtually no market available for CAA and ABTA insurance bonds - and a paucity of insurers willing to write financial failure insurance ("FFI") policies. Where can a travel company source higher bonds from or alternative FFI from? The simple answer is they cannot. When a travel company has to meet minimum liquidity ratios with the CAA then an ABTA ask for higher bonding to be funded by their cash backed bonding scheme is simply unworkable. Something has to give.

With a diminishing bonding insurance market and FFI virtually unavailable, an unsustainable ATOL ATTF and ABTA's under pressure Captive it does not take a genius to work out that consumer protection trusts may fast become the only option that a travel company can implement to satisfy the, frankly penal, PTR. It is no coincidence that some large ATOL holders (e.g. Saga) have announced migrations to an ATOL Approved Trust and some new large ATOL start-ups, such as the Fosun backed Thomas Cook Tourism, have announced they too will operate CAA Approved Trusts.

The problems travel companies will have is the migration to the trust model and its impact on liquidity but what if there is simply no alternative?

ABTA (The Travel Trust Association is their main competitor) continue to refuse to recognise trusts as an alternative to their bonding scheme or FFI. They, not unreasonably, want companies to have a consumer protection choice but if their own scheme becomes unsustainable as there is no insurance market where else is there for their members to go?

The marketplace remains challenging for travel companies. Will advanced testing, social distancing measures and vacillating travel corridors really sustain a sensible travel market place or will it simply have to wait until a vaccine or sustainable herd immunity is established? Unquestionably the next 12 months promises only further unpalatable options to the current fragile and unsustainable regulatory framework in the UK.

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THE LEGAL CHALLENGES PRESENTED BY THE CORONAVIRUS PANDEMIC

fox williams

The travel industry will not look back at 2020 with fondness. It has been the industry's annus horribilis, with the coronavirus pandemic leading to the grounding of flights, closure of borders and the cessation of travel. These circumstances have thrown up a number of unique legal challenges for the travel industry.

OBLIGATION TO REFUND

By far the greatest legal challenge has concerned refunds. It came as a surprise to some that package holiday customers had to be refunded in full within 14 days of cancellation of the package, even if the cancellation was brought about through no fault of the travel company. In fact, organisers of packages have an obligation to refund customers whenever there are unavoidable and extraordinary circumstances, in the destination or its immediate vicinity, which significantly affect performance of the package or carriage of passengers to the destination.

The law on refunds has given rise to some interesting and difficult questions as to whether a particular scenario triggers the customer's free cancellation rights. For instance, there are many circumstances which might affect the customer's ability or desire to travel but which do not affect the ability of the organiser to provide the package holiday.

A local lockdown, or quarantine requirement upon return, may prevent the customer from being able (or wanting) to travel, but this does not affect the organiser from being able to provide the holiday.

A similar but far more controversial situation concerns FCDO advice. The Government has been criticised for issuing blanket advice against travel to all regions and islands of a particular country in situations where the infection rate in a particular island might be very low. As such, airlines are still operating flights to that island and borders and hotels are still open. In that situation, great controversy has arisen as to whether the FCDO's advice, in itself, should trigger the customer's free cancellation rights.

REFUND CREDIT NOTES AND CHARGEBACKS

With practically all bookings having to be cancelled and refunded during the height of the UK lockdown, and with no revenues coming in to the business through new bookings, this presented travel companies with a potentially terminal squeeze on their cashflow.

To make matters worse, travel companies had themselves made prepayments to some suppliers, most notably airlines, and were faced having to pursue these suppliers to refund the prepayments before passing them on to the customer.

In the early weeks, consumers, regulators and the consumer press were sympathetic to the challenges faced by the industry, but this did not last long. In fairly short order, consumers were demanding full refunds to be paid and, with encouragement and guidance from the consumer press, have initiated chargebacks and county court claims to enforce their legal rights. The regulators – particularly the CMA – have taken action to force travel companies to pay refunds and have (at the date of writing) obtaining formal undertakings from Tui and Virgin Holidays to ensure that all refunds due are paid by a long stop date.

This cashflow crisis has given rise to various phenomenon. The first is the creation of the Refund Credit Note, which is nothing other than an I.O.U. provided by the travel company to the customer. The customer can use this Refund Credit Note to book a new holiday with the travel company, or otherwise demand a full refund by its expiry date. Importantly, this I.O.U. comes with financial protection if the original booking was ATOL or ABTA protected. These Refund Credit Notes have therefore been an important way for travel companies to manage the cashflow burden caused by the obligation to refund. However, they have not been without controversy, with some commentators pointing out that Refund Credit Notes have often been forced on a customer rather than offered as a genuine alternative to a cash refund.

The second phenomenon has been around the ability of travel companies themselves to issue chargebacks against their suppliers where those suppliers were paid using a corporate payment card. These payment cards offer travel companies the ability to initiate chargebacks under Visa / Mastercard Scheme Rules where the supplier cancelled the original booking. This route has been most commonly used by travel companies which pay airlines using a corporate payment card. Where those flights are cancelled, this has allowed travel companies to initiate chargebacks under the Visa or Mastercard Scheme Rules if refunds have not been paid voluntarily.

THE FUTURE

The coronavirus pandemic, and the disruption caused to travel, looks set to continue well into 2021. Travel companies are therefore well advised to make arrangements to manage the risks of trading during this "new normal".

Travel companies should ensure that coronavirus measures form part of their normal safety management system so that they can be confident that suppliers have procedures in place to manage the risks.

Travel companies can also put themselves in a better position on cancellations and refunds if they are clear with customers in the booking process and terms and conditions on the effect which coronavirus might have on their holiday. There are also other mitigating steps which can be taken, not least around managing the risk of recovering prepayments from suppliers. These are steps which every travel company should be looking at in order to manage the ongoing risks caused by the pandemic.

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THE CHANGING **BRITISH HOLIDAY**

The rise of staycations? It's still happening. While 2020 gave travel operators an unparalleled shock, and the state of the industry remains complicated, domestic travel will see a sustained bump from the COVID-19 pandemic and ongoing Brexit complications. Liam McGuinness, partner and consumer lead at CIL Management Consultants, discusses what holidaymakers are looking for and how operators will need to react to stay competitive.

MANAGEMENT CONSULTANTS

Following years of continued growth in the UK domestic tourism industry, VisitBritain recently released its latest forecast, predicting a 49% decline in domestic tourism spend in 2020. This is equal to a £44.9 billion loss to the UK economy. Devastating, but a reflection of the COVID-19 spring and summer lockdown that affected all types of business. However, what this data doesn't show is the quick and unprecedented rebound in demand that occurred as restrictions lifted in July and August, and likely long-term opportunities to take share of consumer spend. In simple terms, as quarantine rules and restrictions remain in place, domestic travel provides a more financially secure and attractive option for holidaymakers.

WHERE TO?

With restrictions on international travel, holidaymakers are looking to explore the UK with coastal towns and areas of natural beauty set to benefit from the boom. Devon, Cornwall and the Lake District rank highest among these desired locations, although it's fair to say interest in doing something outside of the norm is increasingly front of mind. High quality accommodation in a remote but beautiful setting can be equally attractive as holidaymakers seek a break from the mundane work from home lifestyle.

While consumers are keen to use up their annual leave that wasn't taken during lockdown, concerns remain around sharing facilities with other guests. Accommodation that offers an outdoor focus and private areas will see increased demand. Camping stays, caravan parks and private holiday homes are highly sort after and may demand a premium; but hotels, B&Bs and theme parks may struggle considering current consumer concerns and regulations.

A recent CIL survey showed that overseas holidays are a top priority for younger consumers once restrictions lift. There is obvious and understandable pent-up demand for international travel, with booking platforms showing an increase in searches for exotic locations like the Maldives and Bali. But, as regulations and quarantining rules can change rapidly, consumer confidence is low. Search interest will come back, but the level of demand depends on how quickly confidence can be restored. Operators will need to flex with the consumer mood in order to reboot holiday demand.

BUSINESS TRAVEL ON THE ROCKS

Hotels, particularly those based in city centres, face another risk: the decline in business travel for the long term. The almost instant mass transition to home working across every industry has proved the effectiveness of video conferencing. As a result, companies already under pressure to cut costs are unlikely to fund business travel any time soon.

Yet, as business trips wind down, we may see a rise of a new kind of travel: the working holiday. As working from home looks to become the norm, we may see a rise in extended breaks for home workers looking for a change of scenery – workers can maintain office hours online and explore new cities and countries in their spare time.

LONG-TERM OUTLOOK

What does all this mean for travel operators in the long-term? Operators must adapt and bring facilities and assets in line with consumer preferences in order to remain competitive. CIL believes this falls into three categories:

1. Flexibility

Restrictions can seem ever-changing and are certainly unpredictable. Consumers want peace of mind when booking in advance. Giving consumers the option to arrive when suits them, pay nearer the time and allowing free cancellation will reassure the more nervous traveller.

2. Cleanliness

Consumers want a clean, safe environment. Offering enhanced cleaning services is an essential.

3. Sustainability

Now, more than ever, people care about low impact travel. Sustainable and environmentally friendly options should be front and centre.

Despite a turbulent year, demand for staycations remains strong with a clear opportunity to take further share in the near-term. However, operators must react to changing consumer behaviour to attract travellers. Those that do not put flexibility and cleanliness at the heart of their offering risk significant reputational damage, but for those that create stress-free, safe and flexible holiday options there is plenty of opportunity.

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NEW UK LEGISLATION INCREASES THE RESTRUCTURING OPTIONS FOR DIRECTORS OF CHALLENGED TRAVEL BUSINESSES AND PROVIDES MORE POSSIBILITIES.

The BDO Special Situations M&A team offer their insights.

Household names across the travel industry are facing disruption at an extraordinary scale. The sector was already scarred by the fall of the likes of Thomas Cook and Flybe before COVID-19, and now international travel restrictions and social distancing measures are pushing previously stable businesses to the edge. Virgin Atlantic has led the way as the first business to make use of the ground-breaking new UK restructuring legislation introduced in June. As Europe braces itself for a second wave of the virus, BDO asks the question "what restructuring tools are available to Directors to help them weather this storm?" and makes the case that a professional review of options is often essential to support key decision making for Directors.

Airlines were put in a particularly vulnerable position when closed borders and local lockdowns came into place across the globe. The industry was already suffering from wider market conditions before any of us had ever heard of COVID-19.

In early March, only two months after the UK government announced a rescue deal for Flybe, Europe's largest regional airline, it collapsed into administration. Then, with the onset of the global pandemic, airlines were left to navigate a complex landscape of quickly changing quarantine regulations varying from country to country.

By the end of March, easyJet had grounded its entire fleet of planes; IAG is still negotiating with unions over their plans to reduce their staff numbers by 13,000 (31%); and Ryanair, initially bullish and asking governments to stop subsidising "the state aid junkies like Lufthansa and Air France", is now managing its own redundancy plans. However, by far the most vocal representative of the airline industry has been Virgin Atlantic. Back in April, the airline started a campaign lobbying the UK Government for £500m of state aid, taking the form of a commercial loan and a credit guarantee to release funds from credit card companies that are currently withholding payments.

Virgin Atlantic had few assets against which to secure the loan; even its valuable Heathrow landing slots had been mortgaged. Virgin Atlantic was supported in its campaign by its suppliers Airbus and Rolls Royce, but the request was ultimately denied. Delta Air Lines (49% owner of Virgin Atlantic) is also barred from investing in foreign businesses under the terms of a US state bailout, leaving the group with limited options for securing investment. We update on this later in the article.

The UK government has provided a number of temporary measures to support businesses across all sectors. These include a moratorium on commercial property evictions for businesses that default on rent payments (recently extended to the end of the year), and a 6 month suspension of the wrongful trading laws to protect directors who would otherwise have to cease trading over concerns of trading an insolvent company (now ended).

On top of these temporary measures, several permanent changes are also being pushed through parliament at a faster pace than previously expected. First and foremost, distressed businesses are now supported by the most significant changes to UK corporate restructuring legislation in almost 20 years. The new UK Corporate Insolvency and Governance Act (CIGA), which took effect in June 2020, brings in permanent changes to the insolvency and restructuring landscape as well as temporary, and largely retrospective, measures to help mitigate the economic impact of the COVID-19 pandemic including the relaxation of statutory filing deadlines and restrictions on the use of winding up petitions.

The new permanent measures are designed to protect businesses in financial difficulty, giving them valuable time to consider their turnaround options. These include new moratorium protection, restrictions on "ipso facto clauses" (which allow suppliers to terminate certain supply contracts during the moratorium or other insolvency proceedings), and a new "debtor in possession" Restructuring Plan that leaves Directors in control and with the ability to do a cross-class cramdown, a tool not available under the existing Scheme of Arrangement and CVA procedures. Combined with the well-established route of Administration and sales via prepack, the restructuring toolkit is now vastly expanded and BDO welcomes this new addition to the statute.

The Restructuring Plan represents a break from precedent in UK insolvency legislation, borrowing elements from the US Chapter 11 bankruptcy process, particularly the controversial cross-class cramdown, which can see one or more dissenting classes of creditors bound to a particular course of action, where they previously would have been able to veto the Restructuring Plan under UK law. This provides courts with flexibility to deviate from the established distribution waterfall. The mere existence of this new legislation is likely to result in more balanced restructuring discussions with creditors as it gives companies more leverage in these discussions. The necessary compromise and support from major creditors may well require a redistribution of some equity ownership to keep these businesses flying.

Following the high profile call-for-help from Virgin Atlantic, it has become the first business to take advantage of this new legislation, drafting a Restructuring Plan to implement a solvent recapitalisation.

The restructuring received final court sanction on 2 September 2020. Given that this was the first use of the legislation, it was encouraging to see that the court decided to apply historical scheme case law when considering and sanctioning the Restructuring Plan. This should give future users of this legislation some comfort as it gives an indication as to the courts' interpretation of the new rules, relying on precedent. Unfortunately, for those of us hoping to see CIGA in action, the controversial cross-class cramdown tool was not used as each class of creditors approved the Restructuring Plan, so we will have to wait for another company to brave the unknown waters to see how the UK courts manage this element in practice.

Meanwhile, Virgin Atlantic can now progress with its restructuring plan, making use of a refinancing package worth £1.2bn and implementing annual cost savings of £280m.

They have started with an announcement of another round of redundancies, this time of 1,150 staff. Another reminder that we are not out of the woods yet.

The ongoing government support since March has protected travel businesses from cash flow crunches that would have normally meant the end of the road. As winter sets in and with no vaccine or other definitive treatment in sight, it is likely that new challenges will come to the fore. Support packages in the magnitude of those in H1 2020 are not sustainable in the long-term, with the government already looking for ways to balance the books after an expensive summer.

With creditor ledgers steadily ageing and negotiations over delayed payments with suppliers now entering their seventh month, it is only a matter of time before previously strong businesses start to consider their options for restructuring, including distressed M&A and carve-outs.

Before the onset of the COVID-19 pandemic, private investors had amassed vast sums of money to invest. In January 2020, Preqin estimated there was $1.5tn of cash on hand, double the level held in 2015. The initial slowdown in activity at the outbreak of the virus has led to many investors being behind in deployment. After months spent focussing on their portfolio companies, protecting cashflows and analysing core competencies, investors (particularly those with a turnaround focus) are ready to start looking for new investment opportunities.

Whilst Private Equity houses are expected to lead the way, there is also potential for some exciting trade opportunities as market consolidators look to take advantage of synergies and scale. In these unusual circumstances, trade buyers could see an advantage over Private Equity buyers, who will need to take a more risk averse approach than trade parties by nature of their modus operandi.

This could result in an exciting combination of approaches, matching capital with skills. Overall, a widespread move towards consolidation seems likely.

"Uncertainty" has become the buzzword of 2020, and we can be sure that whatever investors and executives have in mind for the coming months, they will need to be prepared for the unexpected and consider their options carefully. COVID-19 has led governments to usher in long-awaited legislation at lightning speed. The application of these reforms to achieve productive restructuring solutions in these unpredictable times will likely lead to some exciting transactions over the coming months. Businesses and their respective Directors must assess all the options available carefully and seek expert advice when attempting to navigate this turbulence.

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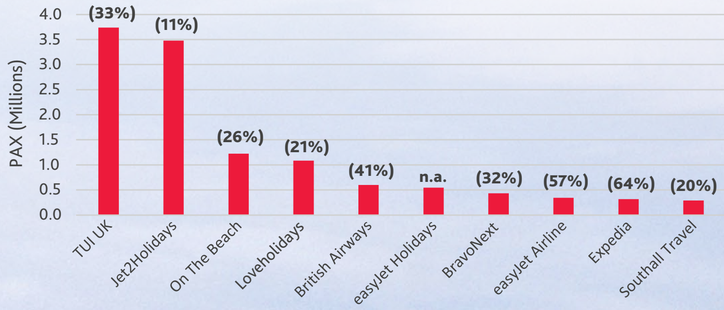
TOP 10 ATOL HOLDERS PAX FALL BY 30%

REINFORCING THE CHALLENGES FACING THE SECTOR

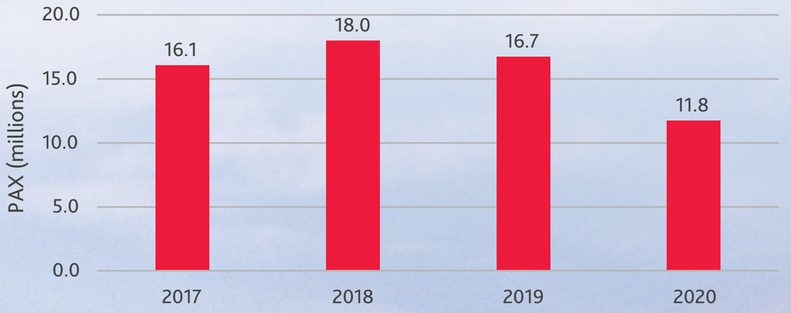
Following a 7% year-on-year fall in 2019 of the top 10 ATOL holders' licenced passengers (PAX), 2020 was meant to be the bounce back year. However, the 2020 ATOL report has reinforced the challenges that the sector is facing. This year, the top 10 ATOL holders have seen their licenced PAX numbers reduce by 30% to 11.8m.

Expedia has seen the largest YoY reduction (out of the top 10) with a 64% decrease from 874k to 317k. TUI retains its number one place as the largest ATOL holder but has seen a 1.8m (33%) decrease in its ATOL PAX volumes. Jet2Holidays has seen the smallest reduction (11%) taking its licensed PAX from 3.9m to 3.5m.

2020 TOP 10 ATOL HOLDERS



TOP 10 ATOL HOLDERS TOTAL PAX 2017-2020



Source: The Civil Aviation Authority

Despite Loveholidays' licensed PAX reducing this year by 21%, it does have an impressive three year CAGR of +20%, growing its licensed PAX from 631k in 2017 to 1.1m in 2020 to become the 4th largest ATOL holder. This is a considerable achievement for a company that was only founded in 2012.

In 2018, the top 10 ATOL holders had total licensed PAX of 18m. This year's figure of 11.8m represents a 53% fall in 2 years. The top 10 ATOL holders are likely to see increases in their figures next year, however, it is unclear when they will return to the heights of 2018.

Despite the clear challenges still facing the sector, there is reason to be optimistic. Travel has shown itself to be one of the most resilient sectors having recovered strongly from previous crises (9/11, SARS, Ash Cloud, GFC etc.) and COVID-19 will be no different. COVID-19 is of course an on-going issue and is likely to be one for some time to come, but travel volumes will return and when those do the businesses that have been able to trade through these difficult times will be in prime position to take advantage. With better testing procedures, some good news regarding potential vaccines and treatments, 2021 could mark the start of another strong recovery for a vitally important UK sector.

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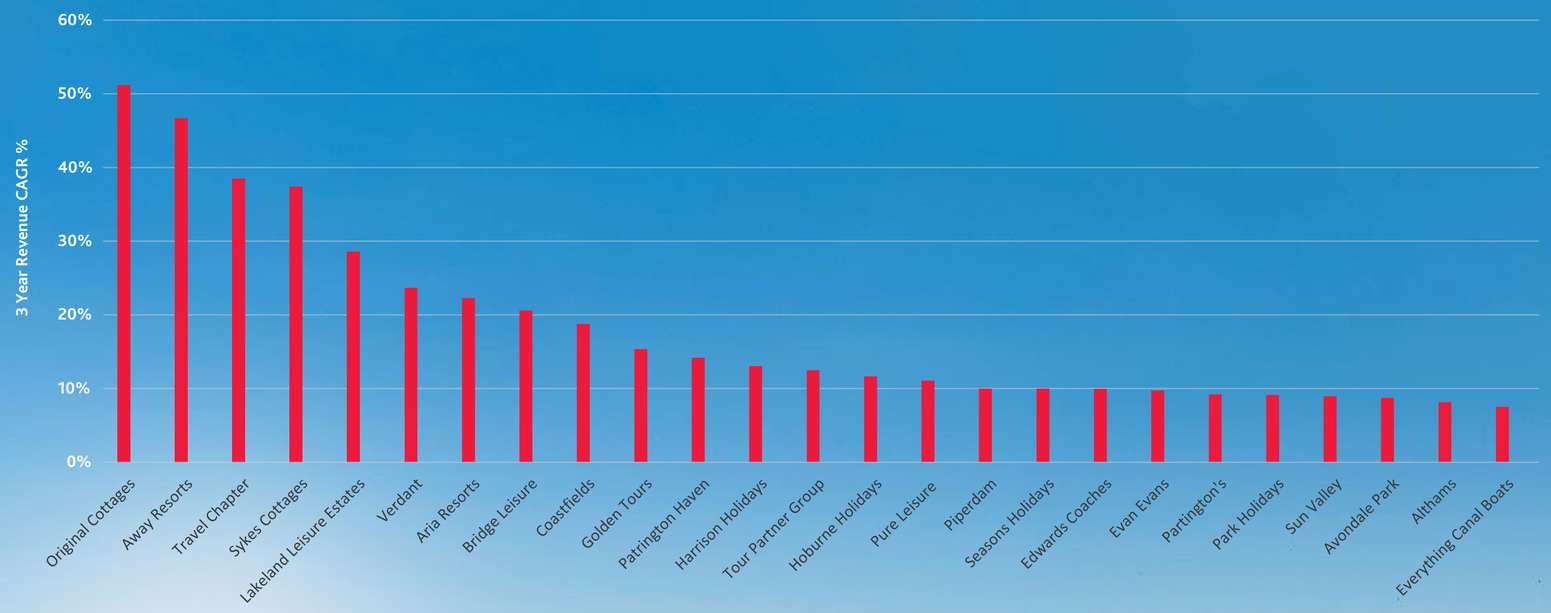
BDO DOMESTIC GROWTH LEAGUE

Congratulations to Original Cottages, Away Resorts and Travel Chapter who make the top three of our 2020 domestic growth league.

METHODOLOGY

The Domestic Travel Growth League is based on the domestic travel companies with the fastest growing revenues. The following chart shows the top 25 based on their three year reported revenue compound annual growth rate (CAGR). The list excludes pure play hotel groups, companies that do not have four years of audited accounts and companies with revenue less than £5 million.



Source: Fame – Data sourced on 19/10/2020 & Companies House

THE RISE OF STAYCATIONS

UK domestic travel has been on the rise for a number of years, driven by the continued depreciation of the Pound, the increased choice and quality in accommodation options, nostalgia for UK family holidays, environmental concerns around flying and a shift towards shorter and more frequent holidays.

This year's unprecedented events led to many writing off this holiday season. However, once the domestic travel restrictions were eased, we saw a much welcome boost in "staycations".

On June 23 2020, the day Boris Johnson gave the green light for hospitality to re-open, domestic holiday providers enjoyed their busiest day for bookings ever. Sykes Holiday Cottages reported a 221% YoY increase in bookings; Hoseasons: 270%; Haven Holidays: 150%; Coolcamping.com: 750%; Parkdean Resorts: 144%; and Best Western Hotels: 575%.

Britons substituted their international travel and instead explored the hidden gems right on their doorstep. Among the most popular UK traveller hotspots were the serene Scottish Highlands and the iconic beaches in Devon and Cornwall.

In his contribution earlier, Liam McGuinness from CIL, clearly depicts the changing trends and the evolution of the domestic travel market. UK holidaymakers are developing a penchant for staycations and it looks like they will be opting for them for several years to come.

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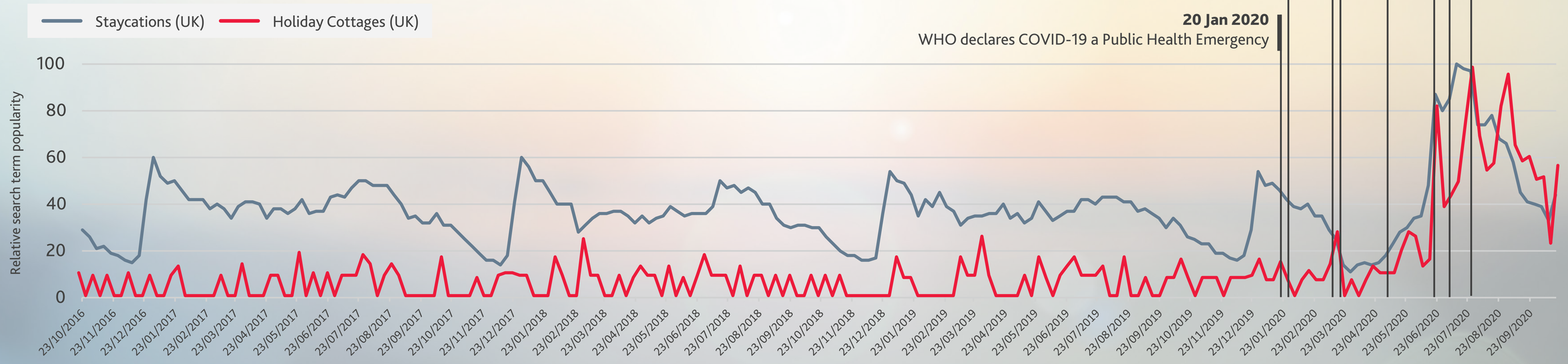
GOOGLE TREND ANALYSIS FOR THE SEARCH TERMS "STAYCATIONS" AND "HOLIDAY COTTAGES" IN THE UK



Source: Google Trends – Data from 23/10/2016 to 21/10/2020

TOMS VAT:
HOW TO OPTIMISE YOUR CASH FLOW

2020 has been an unprecedented year for the Travel Industry. Travel businesses in particular have been affected and have seen a significant reduction of income due to lock down measures restricting the movement of people and international travel. Now has never been a better time to think about VAT and cash flow and whether there are some simple steps that businesses could take to increase cash flow and the bottom line. Here are our top five tips.

1 DEFERRED HOLIDAYS

Tour Operators Margin Scheme (TOMS) VAT is typically accounted when a holiday departs. Therefore, if you have had to defer holidays to 2021/22, then such income and associated costs may fall outside of this year's TOMS calculation. Make sure you only include tours departed in the TOMS year in your TOMS calculation.

2 CANCELLATIONS & REFUNDS

The number of cancelled holidays may have increased with the COVID-19 restrictions. Per HMRC's guidance, travel businesses are still able to deduct any income received from cancelled bookings from its TOMS turnover. Make sure you are deducting such amounts from your TOMS turnover as this will reduce the TOMS margin and subsequently any TOMS VAT payable.

3 DIRECT COSTS

Make sure your TOMS calculation is fit for purpose and that you are bringing in all the direct costs you can. The more direct costs you can include the lower the margin and potentially the lower the VAT payable.

4 PAID OR PAYABLE TOMS COSTS

The legislation allows you to bring in direct costs that are paid or are payable into the TOMS annual calculation. Make sure you bring in costs that are payable even if you have not paid your suppliers within the TOMS period. This will reduce the margin and decrease the TOMS amount due.

5 TOMS PROVISIONAL PERCENTAGE

A provisional TOMS percentage is applied to TOMS turnover on each VAT return to calculate the provisional TOMS VAT due. At the end of the TOMS year an annual calculation is completed and the TOMS VAT due for the year is crystallised. The provisional TOMS percentage is calculated based on the previous year's TOMS liability. Due to COVID-19 it may no longer be appropriate to apply last year's provisional TOMS percentage. This may be the case if the TOMS turnover has significantly dropped due to COVID-19. We would recommend that you review your position and if appropriate, seek permission from HMRC to use the 'actual' TOMS figures each VAT return period or agree a reduction in the provisional TOMS percentage based on current trading activities.

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THE LENDING LANDSCAPE

Even before COVID-19 impacted the travel industry in a way that ash clouds, global financial crises and the combined force of SARS, bird flu and foot and mouth never did, the industry regulator was already evolving its approach to travel businesses, and in particular for those with debt.

REGULATIONS AND LENDER

In 2019, spurred by the already weakening balance sheets of travel companies, examples of the CAA tightening liquidity requirements became apparent, especially for those companies who had borrowed more heavily.

With COVID-19, the added pressure on companies from regulation and from lenders has further tightened. Many funders are managing distressed travel portfolio companies, providing liquidity to those they judge are able to successfully weather the storm. Sadly there have been casualties and lenders are clearly more focused on their existing portfolio companies than they are seeking new-to-bank opportunities. One thing is certain: lenders will not forget 2020 in a hurry.

ALTERNATIVE FUNDING OPTIONS

Looking to the future, travel companies seeking to access the debt markets will face challenges. Some lenders will be jaded by a sector in which they have incurred losses, and borrowers will need to seek alternative funding options, for example by approaching debt funds, who have hitherto been less able to compete for travel business thanks to the CAA limiting levels of debt, staying within the reach of bank credit appetite. This has in general restricted the number of companies raising debt from funds which charge a higher price than the banks. However, should the banking sector further reduce its appetite to lend to the travel sector, this could be an opportunity for debt funds to lend to successful travel companies by pricing risk more appropriately.

IDIOSYNCRASIES OF LENDING

Even this is not without its challenges - those funds who have not previously lent to the sector will need to adapt to the idiosyncrasies of lending to travel businesses: for example, CAA regulated companies are unable to give security in the normal way in order to protect customers and lenders must rely on a weaker form of security such as a share pledge.

But for those companies who are prepared, and who can articulate their strategy well to lenders, the ability to raise debt from non-bank sources has historically allowed more flexible facilities, from lenders with a greater willingness to take into account shock events. These bespoke debt facilities better allow a travel business to withstand unwelcome events, and in an uncertain world that might offer a rare piece of good news.

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OUR RECENT TRANSACTION CREDENTIALS

M&A

ESCORTED TOURS AND LUXURY TRAVEL

SELL-SIDE — Sale to Alcuin Capital Partners

SELL-SIDE — Sale to Hotelplan

BUY-SIDE — Acquisition by ECI Partners

BUY-SIDE — Acquisition by Inflexion Private Equity

SELL-SIDE — Sale to Equistone Partners

SELL-SIDE — Sale to On The Beach plc

INVESTOR ADVICE — Investor advice to LDC on its exit

ONLINE TRAVEL AGENTS

BUY-SIDE — Acquisition by Cruise.Co

SELL-SIDE — Sale to Bridgepoint Development Capital

BUY-SIDE — Acquisition by dnata

BUY-SIDE — Acquisition by Growth Capital Partners

BUY-SIDE — Acquisition by Inflexion Private Equity

BUY-SIDE — Acquisition by dnata

SELL-SIDE — Sale to TUI Travel

OTHER TRAVEL

SELL-SIDE — Sale to Travel Leaders

SELL-SIDE — Sale to Risk Capital Partners

BUY-SIDE — Acquisition by dnata

BUY-SIDE — Acquisition by dnata

BUY-SIDE — Acquisition by Clarity Travel Management

SELL-SIDE — Sale to ctm

BUY-SIDE — Acquisition by Vitruvian Partners

BUY-SIDE — Acquisition by Jactravel

SELL-SIDE — Sale to Rockpool

BUY-SIDE — Acquisition by Al Tayyar Travel Group

SELL-SIDE — Sale to SkyScanner

BUY-SIDE — Acquisition by Portman Travel Group

SELL-SIDE — Sale to Holiday Extras

SELL-SIDE — Sale to Away Resorts

SELL-SIDE — Sale to eDreams

BUY-SIDE — Acquisition by Portman Travel Group

SELL-SIDE — Sale to HotelBeds

TRANSACTION SERVICES

BUY-SIDE — Acquisition of LoveHomeSwap by a subsidiary of Wyndham Worldwide

BUY-SIDE — Financial and tax due diligence on the operations of Trans Nordic Tours on behalf of Tour Partner Group

BUY-SIDE — Imagine Cruising acquired Holiday Planet, an Australian based travel company

SELL-SIDE — Vendor DD regarding the sale of Iglu to LDC by Growth Capital Partners

SELL-SIDE — BDO provided vendor due diligence on the sale of Barrhead Travel to US-based Travel Leaders Group

BUY-SIDE — BDO has worked on multiple financial due diligence assignments for dnata including the acquisitions of Gold Medal & Stella Travel Services

BUY-SIDE — Elysian Capital back the acquisition of Key Travel Limited from Livingbridge

SELL-SIDE — Investment in Go Travelling Limited by Alcuin Capital Partners

BUY-SIDE — BDO provided M&A, due diligence and tax advice to Mobeus Equity Partners and Ski Solutions on the MBO of Wilderness Scotland

BUY-SIDE — Acquisition of Raptim

BUY-SIDE — Acquisition of Business Travel Direct by Reed and Mackay

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