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MIDDLE EAST

**SPECIAL
REPORT
FORECAST
2017**
ONWARDS
& UPWARDS
P. 42

CATERING
EQUIPMENT
**SMARTER,
STRONGER
& SIMPLER**
P. 82

CHEESE
SPREADING
ITS WINGS
P. 92

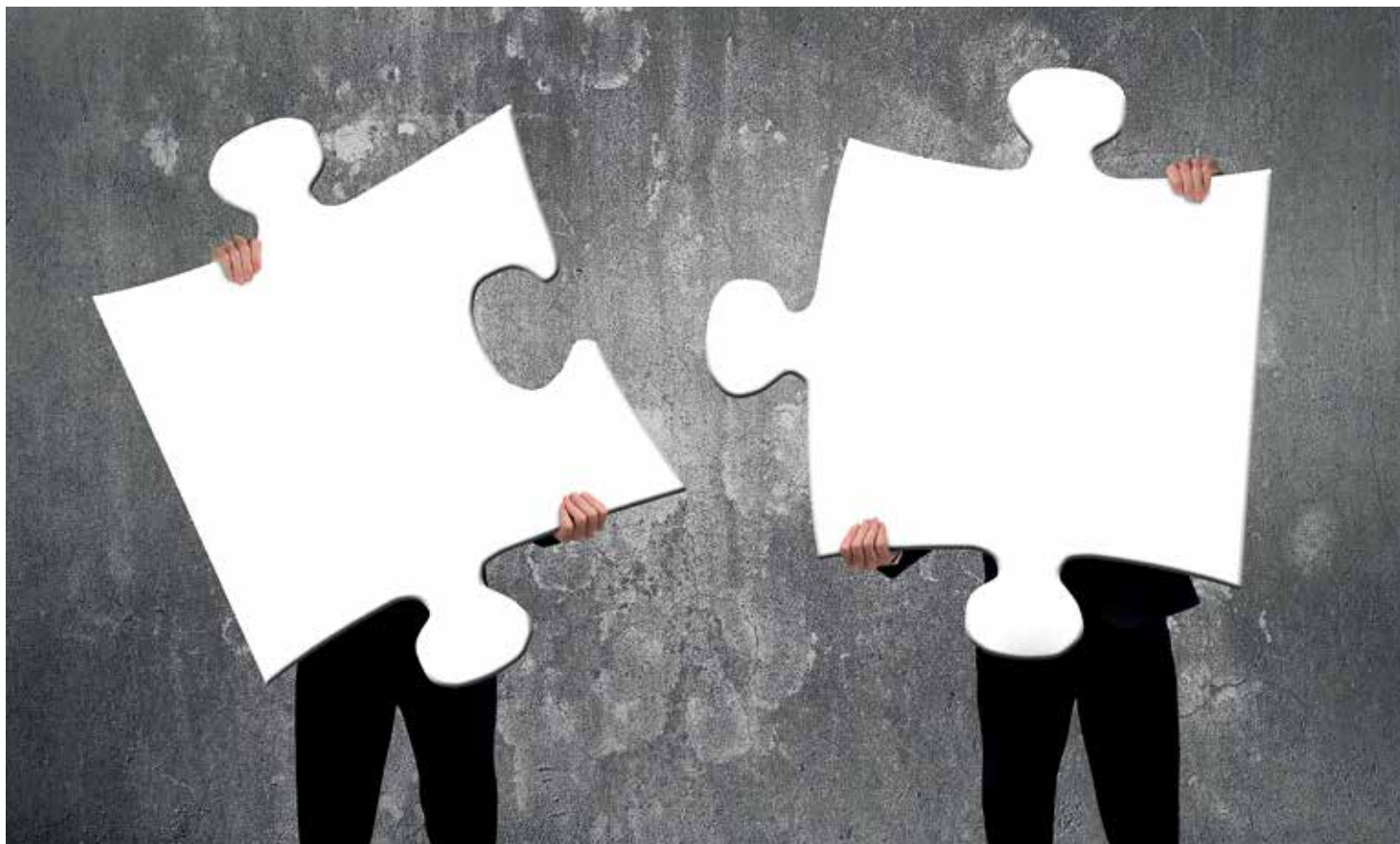


TOP CHEF
مش أي شيف MEET
THE WINNER
ISSAM JAAFARI
P. 22

**MERGER
MANIA**
P. 52

**THE MADNESS
BEHIND THE
SECRETS
OF PRICING**
P. 64

**HYGIENE IN
THE MIDDLE EAST**
**TIME TO
COME CLEAN**
P. 66



MERGER MANIA IN THE HOSPITALITY INDUSTRY



The tourism industry is never short of fresh ideas when it comes to reinventing itself to attract more customers, and first and foremost, increase its profit. **Nada Alameddine**, partner at Hodema consulting services, explores the factors driving hoteliers into deals

This year, more than 1.2 billion tourists are expected to travel across the globe, according to the World Travel and Tourism Council. So how do you get the most out of them to increase the monetary value of your business? Many key hotel owners have decided to join forces to establish their control over an increasingly large part of the industry. They usually resort to a Mergers & Acquisitions (M&A) strategy, either through the purchase of a company – or at least part of it – or by combining its activities with another structure in order to create a new business. And it seems to be proving a winning method, with M&A deals multiplying as the industry's big players are taking over the sector.

M&A as a tool to secure growth

M&A mania kicked off with the emergence of the global market following the internet revolution. Online digital applications, such as internet booking and e-payment, also evolved rapidly, and investors quickly realized they had to fine-tune their strategy to maintain growth. They needed to be present in multiple markets in order to offset their economic weaknesses, and the easiest way to rapidly grow their income

and portfolio of brands in multiple regions around the globe was through M&A.

M&A in hospitality

Hotel groups have shown a steady growth, some securing their development by acquiring brands, while others changed their name entirely when they joined forces with competing businesses. The world's top 10 global hotel chains are now sharing 116 brands between them, and the numbers are going up. These top players only account for about a third of the estimated 17.5 million hotel rooms available worldwide, and none of the 10 had a market share of more than five percent before the historic merger of Marriott and Starwood, representing around seven percent of the global market.

Historic M&A deals

The last two years alone have seen some of the most significant M&A deals in the industry; in 2014, the acquisition of Cape Town-based Protea Hospitality and its three brands (Protea Hotels, Protea Hotel Fire & Ice! and African Pride Hotels) for USD 186 million by Marriott, strengthened its African portfolio by 116 hotels in seven African countries. MGM

Resorts International and Hakkasan Group have also joined forces to create the hotel management company MGM Hakkasan Hospitality to develop properties under the Bellagio, Hakkasan, MGM Grand and Skyloft brands. Then in 2015, InterContinental Hotels Group (IHG) acquired Kimpton's 62 hotels for USD 430 million, making IHG the leader in the boutique segment, and Marriott completed the USD 134 million deal for Delta's 37 hotels. Also that year, Shanghai based Jin Jiang International acquired France's Louvre Hotels from Starwood and later merged with another Chinese leading hospitality group, Plateno Hotels, to form a combined portfolio of over 3,090 hotels in 61 countries. Jin Jiang International also possesses around 15 percent of Accor's capital. Wyndham Hotel Group acquired Dolce Hotels and Resorts, a leading provider and manager of group accommodations with a portfolio of 24 properties in Europe and North America for USD 57 million. The group added the Dolce brand to its 14 existing ones (Ramada, Days Inn, Howard Johnson and Knights Inn, among others).

But the two most important M&A transactions involving global leading hotel brands undoubtedly took place this year, with Accor purchasing Fairmont Raffles Hotels International (FRHI) – the Toronto-based parent company to the Fairmont, Raffles, and Swissôtel brands – with 155 properties around the world for USD 2.7 billion. The Accor group now has 4,100 addresses in 95 countries with 19 brands. The second and most significant M&A since Blackstone Group bought Hilton Hotels & Resorts for USD 26 billion in 2007, is Marriott Acquisition of Starwood for USD 13 billion. This resulted in the formation of the world's largest hotel company, consisting of 30 hotel brands with 5,700 hotels and 1.1 million hotel rooms in 110 countries worldwide. The deal is expected to generate some USD 250 million in "synergies" or cost savings.

Other deals signed this year were overshadowed by these key M&As, such as HNA Tourism increasing its hotel portfolio from 500 to 1,900 by acquiring Carlson Hotels 1,400 properties and establishing its presence in the US while expanding its footprint outside China. HNA recently paid USD 6.5 billion to buy a 25 percent stake in Hilton Worldwide Holdings Inc from its biggest shareholder, Blackstone Group.

“The world's top 10 global hotel chains are now sharing 116 brands between them, and the numbers are going up”

Business in the US has been going strong as well, with the merger between Destination Hotels and Commune Hotels & Resorts to create Two Roads Hospitality, a leading operator of lifestyle hotels and resorts with 90 properties in seven countries, and over five brands: Alila Hotels & Resorts, Destination Hotels, Tommie, Joie de Vivre and Thomson Hotels. US-based Red Lion Hotels, which currently owns five brands: Hotel RL, Red Lion Hotels, Red Lion Inn & Suites, GuestHouse, and Settle Inn and 124 hotel properties, bought Vantage Hospitality's 10 brands and their 1,000 hotels throughout the US and Canada.

A promising trend

Upcoming acquisitions have already been announced, such as Jin Jiang Hotels which is set to acquire 80 percent shares of Vienna House Group, and increase its shares in Accor to 20 percent or even 30 percent. Best Western's Chief Executive David Kong is also rumored to have said that his company could be considering a move, although it was too early to announce anything concrete.

THE LATEST M&AS IN THE HOTEL SECTOR

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