Waiting game

M&A trends in travel, leisure, and hospitality

Q2'23

kpmg.com

Introduction

Bustling consumers, careful companies

M&A volumes in the travel, leisure, and hospitality (TLH) sector continued to slide in H1'23. While buoyant consumer demand for services such as online gaming, luxury travel, and theme parks has fueled the sector's resurgence, companies remain cautious about doing deals given the high cost of acquisition financing and the threat of a US "slowcession" creeping over the economy later this year.

Deal activity in much of the sector has yet to return to prepandemic levels amid this uncertainty. The total value of announced deals dropped 23.0 percent quarter over quarter to Q2'23. While companies are encouraged by the go-go summer travel season, pockets of weakness, such as certain international inbound travel, remain. And concerns persist that momentum will fizzle later this year in areas such as lodging—already working hard to claw back business travelers—should an economic slowdown begin to bite consumer wallets.

That is not to say deals are not getting done. Strategic buyers found opportunities to execute their inorganic growth plans, driving a 25.0 percent quarter-over-quarter increase in the total value of strategic transactions. Private equity buyers, meanwhile, pursued much smaller deals, leading to a 91.6 percent decline quarter over quarter in the value of deals they completed.

Amid this, dynamics in some subsectors were shaping up for a return to deal making once the markets for financing stabilize. In hospitality, for one, cost cutting during the pandemic padded company balance sheets, and they now have cash to put to work—a potential untapped reserve for future M&A.

Casino and online gaming companies, meanwhile, are poised for a shake-up—the former due to changing real estate and consumer trends and the latter because of overcrowding in the market and the push for differentiated technology, customer scale, and geographic diversity, especially in areas such as sports betting.

The Federal Reserve's action on rate hikes remains a barometer for deal making in TLH, as it does in other industries. KPMG Economics forecasts the Fed will shift to interest rate cuts in May '24—March '24 at the earliest—but until there's more clarity, deal makers are unlikely to signal the "all-clear" for new transactions.

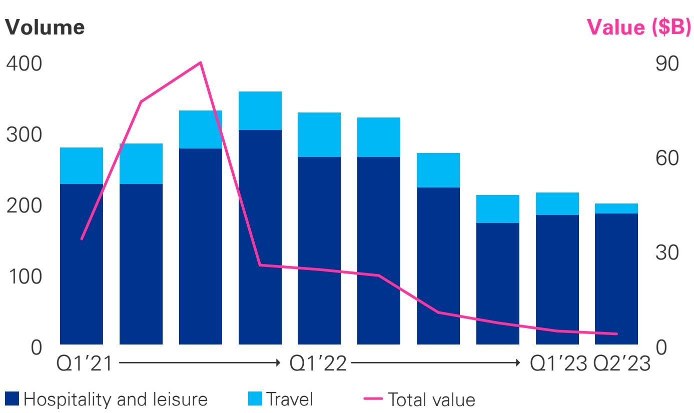
Braden Mark
Partner
Deal Advisory & Strategy
TLH Leader

Q2'23 highlights

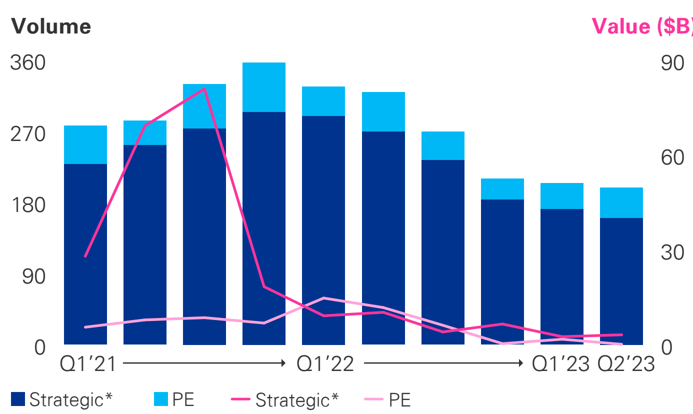
198 deals ▼ **3%** decrease QoQ

$3.3 billion deal value ▼ **23%** decrease QoQ

TLH deal activity by sector



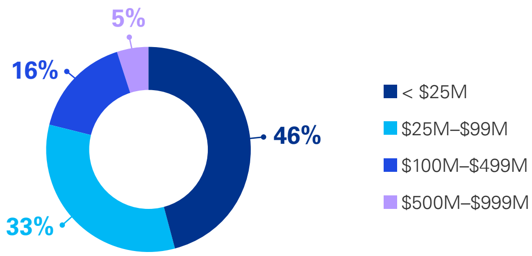
TLH deal activity by type



**Includes SPAC deal activity*

Q2’23 deal mix

Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Ryman Hospitality Properties, Blackstone REIT	JW Marriott Hill Country	$0.8
Darden Restaurants	Ruth’s Hospitality Group	$0.7
Service Properties Trust	Nautilus Hotel	$0.2

Top PE deals

Acquirer	Target	Value (billions)
Sixth Street	Bay Area National Women’s Soccer League	$0.1
No other significant PE deals disclosed		

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

At a glance

Travel

Smaller, fewer deals in sparse quarter

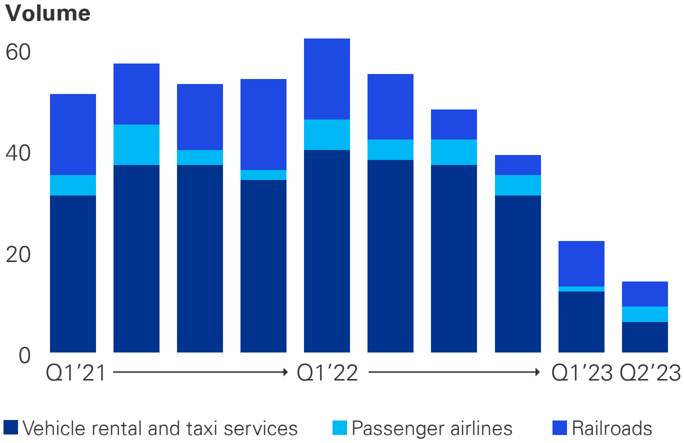
Deal making in travel hit a near standstill in Q2'23 at just 14 transactions. That's a 36.4 percent decline in the number of deals from Q1'23 and a 74.5 percent decline from the same period a year earlier. The largest deal in Q2, at $54.9 million, was NS Aviation's acquisition of TruJet, which expands NS Aviation's connectivity across India.

A handful of smaller deals also were completed during the quarter, three of which were by private equity buyers.

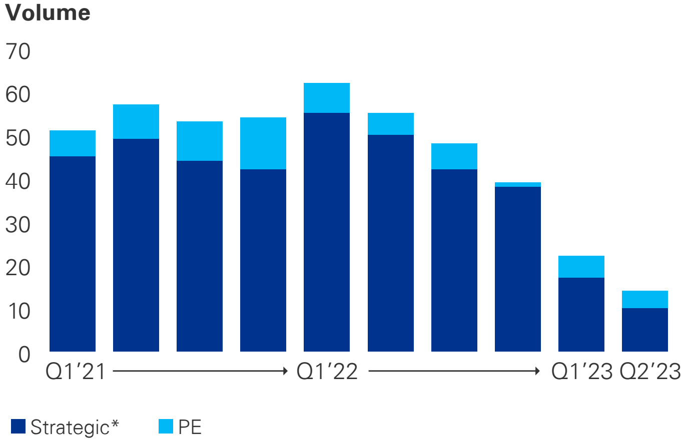
Q2'23 highlights

14 deals ▼ **36%** decrease QoQ | **$0.1** billion deal value ▼ **74%** decrease QoQ

Travel deal activity by subsector



Travel deal activity by type



**Includes SPAC deal activity*

Top travel deals

Acquirer	Target	Rationale	Value (billions)
NS Aviation	TruJet	Entry into new geographic market, technology partnerships	$0.1

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

On NS Aviation/TruJet travel deal:

"We emphasized the forward-looking nature of NS Aviation's entry into the Indian aviation industry and its commitment to strengthening its position through technology and strategic partnerships."

— Isha Ali, Cofounder and Vice Chariman, NS Aviation

At a glance

Leisure and hospitality

Demand is back, but companies remain deal-cautious

After two years locked inside during the pandemic, consumers continue to come back to travel, setting the stage this year in leisure and hospitality businesses for an active summer season. When it comes to M&A, though, companies have tempered new, creative deals for now as they wait and see whether consumer enthusiasm continues into H2'23 should the long-expected recession finally hit. Quarter-over-quarter in Q2'23, the total value of deals in the leisure and hospitality segment declined 18.3 percent, while the number of deals was virtually flat, rising to 184 in Q2'23 from 182 a quarter earlier.

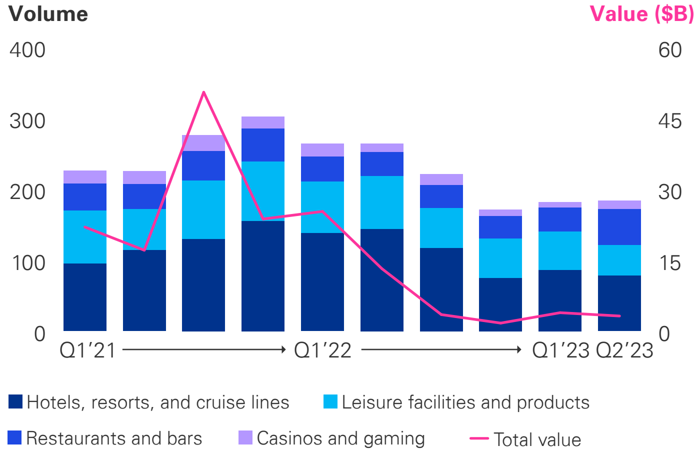
Companies in the subsector continue to see promising signs of recovery. Key hotel industry metrics such as average daily room rate (ADR) and revenue per available room (RevPAR) have rebounded to—and in some cases exceeded—prepandemic levels, though hotel occupancy rates are still lagging, in part because business travelers have yet to return in force. Occupancy rates are still down on cruise ships and in land-based casinos, too, but consumers' desire to spend on experiences and services continues to drive the subsector's revival.

While more cautious, companies proved that they're prepared to do strategic deals to diversify their portfolios to meet specific customer needs. The two biggest M&A deals in the leisure and hospitality subsector during Q2'23, for instance, were for luxury/upscale assets—a segment that is growing. Ryman Hospitality Properties spent $800 million to buy the JW Marriott San Antonio Hill Country Resort & Spa from Blackstone Real Estate Investment Trust. Darden Restaurants diversified its mostly midrange portfolio of restaurant brands with the $715 million all-cash acquisition of Ruth's Hospitality Group, operator of Ruth's Chris Steakhouse fine-dining restaurants.

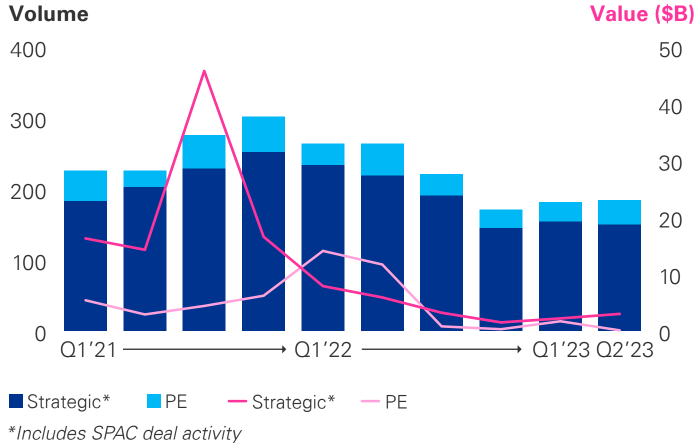
Q2'23 highlights

184 deals ▲ **1%** increase QoQ | **$3.2** billion deal value ▼ **18%** decrease QoQ

Leisure and hospitality deal activity by subsector



Leisure and hospitality deal activity by type

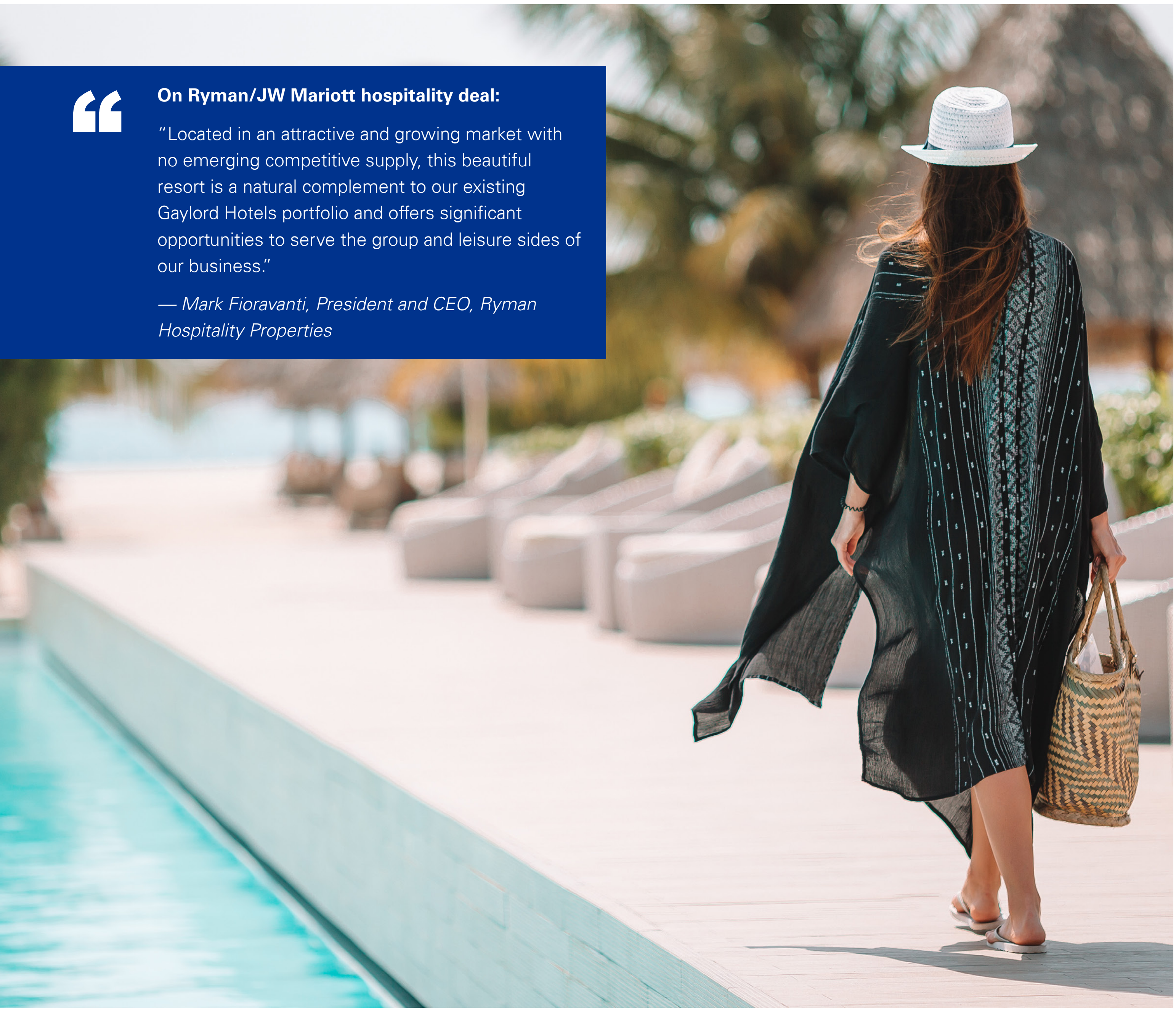


*Includes SPAC deal activity

Top leisure and hospitality deals

Acquirer	Target	Rationale	Value (billions)
Ryman Hospitality Properties, Blackstone REIT	JW Marriott Hill Country	Attractive and growing market with little competition	$0.8
Darden Restaurants	Ruth's Hospitality Group	Strong and distinctive brand	$0.7
Service Properties Trust	Nautilus Hotel	Entry into new geographic market	$0.2

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2 2023 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.



On Ryman/JW Mariott hospitality deal:

"Located in an attractive and growing market with no emerging competitive supply, this beautiful resort is a natural complement to our existing Gaylord Hotels portfolio and offers significant opportunities to serve the group and leisure sides of our business."

— Mark Fioravanti, President and CEO, Ryman Hospitality Properties

Deep dive

Resilient gamers buoying industry bets on growth, deals

US casino and gaming has proven a standout segment within the travel, leisure, and hospitality sector. Market revenues surpassed prepandemic levels in 2021 and are still growing, thanks to resilient consumers and the drive in more states to legalize sports betting. Younger players are moving online, a potential short-term hedge against a slowcession-led dip in travel and a sign of broader trends that will shape the future of the sector.

Deal making, for now, continued to cool off. In H1'23, there were $1.2 billion of M&A transactions, an 87.9 percent slump from the same period a year ago. Quarter over quarter for 2023, the total value of transactions fell 63.2 percent. Since peaks of $8.7 billion in Q3'21 and Q1'22, total quarterly transaction values have broken $1 billion only once.

Deal makers, though, are counting on a rebound in transactions once financing costs decline and clarity on the future state of the economy emerges. For now, even as slow progress toward deregulation in some states holds back expansion in iGaming and sports betting, encouraging growth prospects for the sector are likely to spur companies selectively into acquisitions that deliver technology advantage, new content, more focused operations, and market consolidation.

Across the gaming landscape, some key themes in M&A are emerging. Land-based casinos and online gaming companies are poised for reshuffling—the former a response to changes in the real estate cycle and the latter in a push for new customers in existing and soon-to-be deregulated markets. Acquisitions remain an attractive option for diversifying product portfolios. Interestingly, we are beginning to see convergence among gaming, media, and sports properties as companies pursue deeper fan engagement across products and more lucrative media, broadcasting, and merchandise fees.

From an industry fundamentals perspective, consumers have proved a steady base of demand, fueling a faster, and more resilient, rebound in gaming than in other leisure subsectors. Weekend travel to Las Vegas, for instance, has returned, and many casino resorts are again delivering healthy profits. That said, growth is unlikely to be sustainable at current levels. The pandemic upended land-based business, creating a perfect storm of conditions that accelerated the segment's transition online.

Companies adapted to the loss of revenue by shifting focus from physical venues to new online models as engines of growth. Lottery companies, while delivering consistent results during and after the pandemic, are now beginning to map out a digital future.

"There's a lot of opportunity here and the first organization to figure out how to do it right will set a pace for the rest of the industry to follow. Further, large incumbents, who have the most to lose, will be challenged by smaller, nimbler competitors," said Daniel Fischer, Managing Director, Deal Advisory & Strategy, KPMG.

Sports betting, meanwhile, has expanded significantly, thanks to increased deregulation. Now, companies that swarmed the space are investing in their own direct-to-consumer platforms to differentiate their offering and attract and retain a captive user. As a result, B2B platform providers will start to feel the pinch. One example of a DTC play is Penn Entertainment's acquisition of theScore, a digital media company with a sports betting platform.

As more online gaming companies launch bespoke consumer platforms, we are likely to see acquisitions emerge as a path to consolidating and scaling technology and customers. It is such an important part of their strategy that these companies are pursuing technology expertise by buying up small development shops for engineering talent.

With so much potential across segments, the biggest gaming conglomerates are looking for ways to get more value from their business lines and to streamline for growth. Light & Wonder, formerly Scientific Games, last year sold its lottery unit—a year after selling its sports betting division—to sharpen its focus on iGaming and land-based game development.

And those areas where growth has been booming, such as sports betting—which had hit, and then pulled back from, sky-high valuations—may see consolidation as clear market share winners emerge and deal multiples decline. What is clear is that even in the face of a potential recession, gaming fundamentals remain strong. Reaching strategic goals through M&A means placing the right bets on fast-changing industry trends and finding the best fit to meet inorganic growth targets.

Rick Arpin
Partner
US Gaming Leader

Daniel Fischer
Managing Director
Deal Advisory & Strategy

Will Powell
Director
Deal Advisory & Strategy

Outlook

Caution tempers enthusiasm

While consumers continue to drive a rebound in the TLH sector, and the easing of travel restrictions unlocks new demand and growth possibilities, companies in the sector remain cautious about deal making given unclear economic factors and cost pressures.

One factor is unfavorable labor dynamics, which will continue to put upward pressure on wages. Job openings to number of unemployed, a key metric for the people-intensive TLH sector, showed a skew against employers since early 2022 of nearly two open jobs for every unemployed person that could fill them. Companies will be competing hard in the coming quarters for staff, leading to higher labor costs and likely to higher consumer prices for services.

For now, though, rising prices won't deter consumers. In fact, 87 percent of respondents to a survey conducted by *Forbes Advisor* said they plan to travel at least as much this year as they did last year. Almost half said they plan to travel more this year.[1] Many travel organizations are optimistic about business in the summer period but are prepared should demand begin to slow and consumers spend less of their savings later this year.

Much of the roughly $1.1 trillion of remaining postpandemic consumer savings sits in high-income households, and as the expected US economic slowdown begins to bite in Q3/Q4, those households may retrench from spending.[2] Low-income households will not have a savings buffer to spend if a recession fully materializes.

KPMG Economics forecasts slowing growth in Q4 with a rise in the unemployment rate through much of 2025. Real GDP growth will return in mid-2024, while the Federal Reserve will likely be easing around the same time. The key signal for cuts could be when core Personal Consumption Expenditures inflation falls below 3 percent.

With this comes cheaper financing, a potential stimulus for future M&A. The TLH sector is capital intensive. The higher borrowing costs of the past year have directly affected companies' decisions about making deals. That said, many hospitality companies have robust balance sheets thanks to cost-savings initiatives during the COVID-19 pandemic and will likely begin to put this cash to work, possibly in M&A.

Key considerations as we look ahead

1

The travel segment is key to the continued recovery of the US economy. There are clear signs of a rebound, but continued support, including at the policy level, is critical to a full return to growth in the industry.

2

Strategic players will still find ways to execute their inorganic growth strategies.

3

Once the economic picture is more clear, capital markets stabilize, and the pricing for deal financing begins to drop, companies will again turn to deal making to meet strategic priorities and drive growth.

[1] Pokora, Becky. "[Survey] 49% Of Consumers Plan To Travel More In 2023." Forbes Advisor, 1 Jul. 2023.
[2] Spending slips, inflation simmers (kpmg.us)

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.

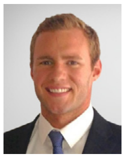
With a TLH specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

Authors

Braden Mark
Partner
Deal Advisory & Strategy
303-382-7980
bmark@kpmg.com

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

Daniel Fischer
Managing Director
Deal Advisory & Strategy
201-925-9915
danielfischer@kpmg.com



Will Powell
Director
Deal Advisory & Strategy
212-954-4891
wbutdorf@kpmg.com

With special thanks to:
Tyler Baram, Ankita Baweja, Saarthak Chaudhry, Garvita Garg, Mary Leonard, Tara Nelson, Ralph Park, Aashita Sabharwal, John Thomas, and Heather Vo

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

kpmg.com/socialmedia