



COVID-19

Industry Pulse
Report: Tourism

16 April 2020



Building a better
working world



COVID-19 Industry Pulse Report: Tourism

- ▶ How does COVID-19 impact the tourism sector?
- ▶ What is the industry's sentiment around it?
- ▶ What actions could limit the impact for tourism and its ecosystem?



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Foreword

“ The pandemic has caused global economic turmoil and has disrupted consumption and supply chains across the world.

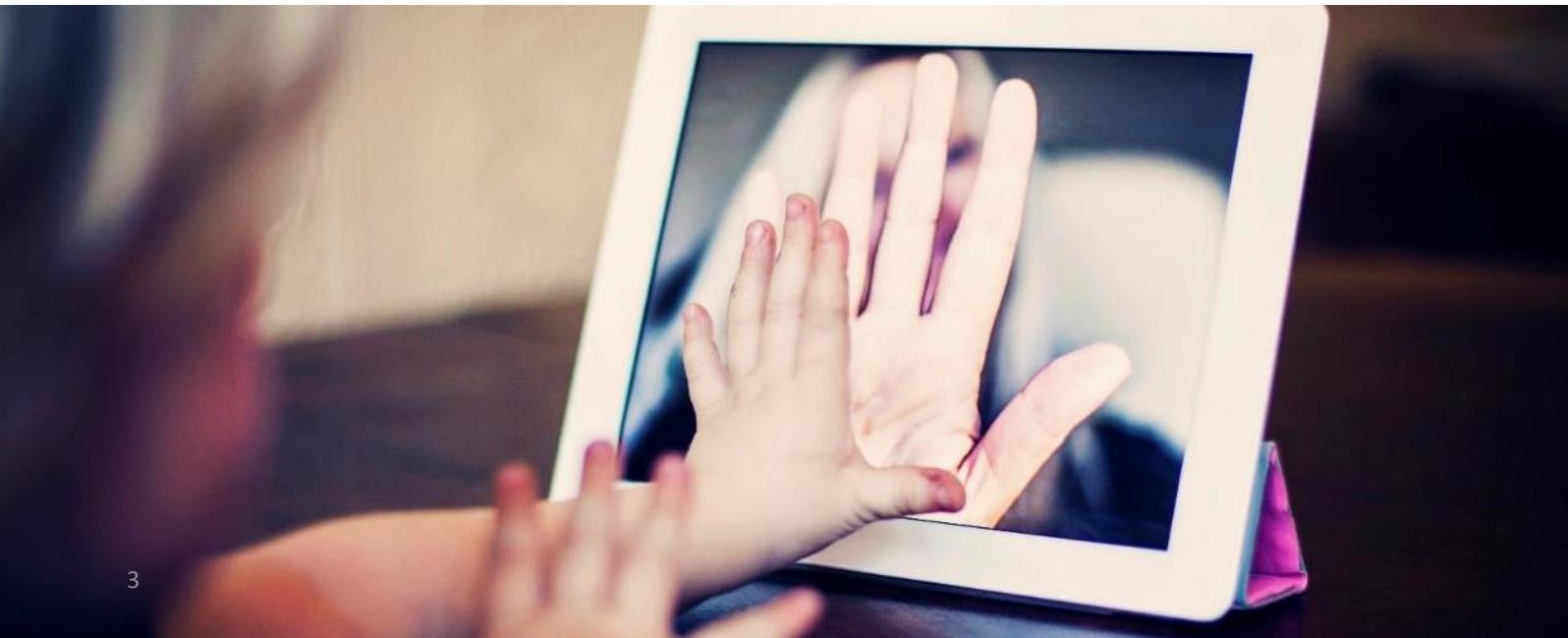
Cyprus is once again facing an immense challenge that is exacerbated by the global interconnectedness of its economy. The situation calls for ongoing monitoring to ensure proper understanding and sound decision-making.

At EY Cyprus, we have prepared three Industry Pulse reports for the Tourism, Banking and Real Estate sectors. The reports aim to provide sector-specific perspective with regards to the impact of COVID-19, in conjunction with fiscal and monetary policy response, and include our own assessment of likely scenarios and trends. In this report, we focus on the Tourism sector.

Our team has spoken with tourism sector experts and leaders to obtain a realistic collective sense of their sentiment and expectations of this crisis, their views in relation to the response measures to date and their insights with regards to recovery scenarios and trends.

This publication will be updated periodically and shall incorporate the most updated publicly available information in relation to the impact of the virus on the aforementioned industries, the Government and regulators' response actions as well as an updated economic assessment in accordance with our view.

We trust that this publication will become a reference document for discussion among stakeholders such as corporate executives, financial institutions and the Government.



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Executive Summary

The unprecedented humanitarian effect of the COVID-19 crisis comes along with a potential economic downturn. We are in uncharted territory that is beset with further shocks both to the local and global economy. What is clear, however, is that the road to recovery will be an uphill one. Addressing a volatile situation like this requires coordinated actions across all levels and stakeholders. The Tourism sector, a key pillar of the economy, has a critical role to play in economic recovery.

It is noted that the rapid expansion of the outbreak may cause some of the perspectives in this report to quickly become out of date. This Pulse report reflects our perspective as of April 13, 2020; we aim to update the report regularly as the outbreak evolves, to capture the latest developments caused by the virus.

Industry Sentiment - Key Takeaways of the EY Survey

EY has conducted a Survey with regards to the potential impact of COVID-19 on the Cypriot Tourism sector. Key experts and executives from major Cypriot hotels and hotel chains were invited to share their sentiment on the impact of COVID-19 on the sector with regards to operations and financial performance.

View on financial performance

- ▶ The vast majority of participants expect an overall **reduction of at least 50% in revenue for 2020** compared to 2019. They also project a **decrease of more than 50% on the average occupancy** for the year compared to the previous year.
- ▶ Unanimous response that **all reservations until the end of May 2020 were either cancelled or deferred**. Similarly, bookings for June 2020 are currently at low levels and likely to be also cancelled.
- ▶ The majority of the participants expect **2020 to be loss-making**, with a material risk of missing out on the rest of the season.
- ▶ Concerns by most participants that people will opt to spend **summer holidays in home countries**, even after relaxation of measures.
- ▶ Only 25% of participants were optimistic for resuming operations by July 2020, which still accounts for **more than 3 months lost business for the year**.

View on Government measures to-date

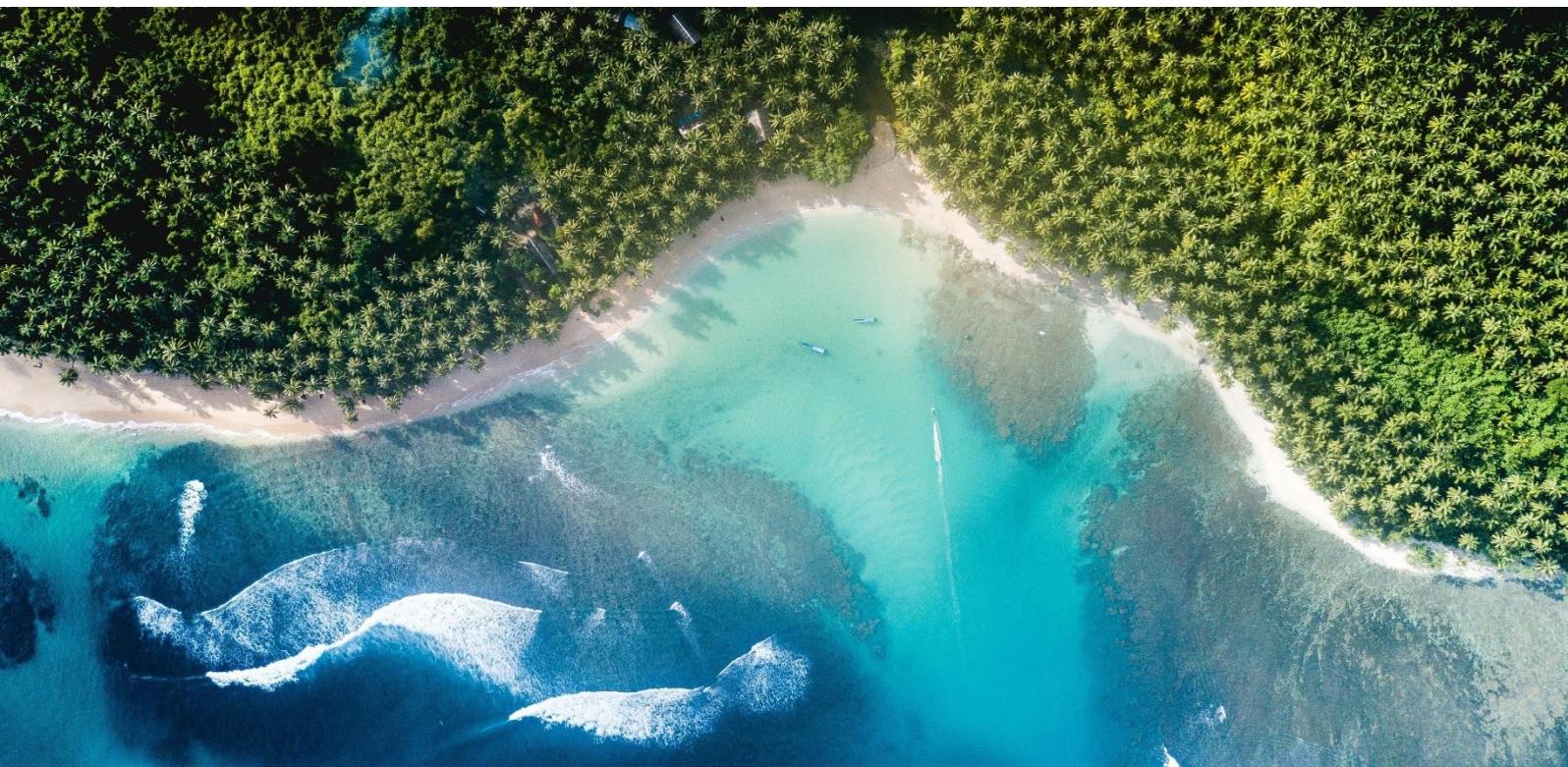
- ▶ Participants were neutral regarding Government support measures, anticipating further measures and clarifications.

View on industry behaviour and recovery

- ▶ Participants expect a change in tourists' behaviour in the short term towards domestic tourism, less crowded facilities and destinations closer to home. **Half of participants intend to increase their focus on the domestic market.**

Hotels are considering **30%** rate reductions up to to win local business

Only 40% of executives anticipate that the industry will return to 2019 levels by 2021. The rest expect recovery to drag beyond 2022.



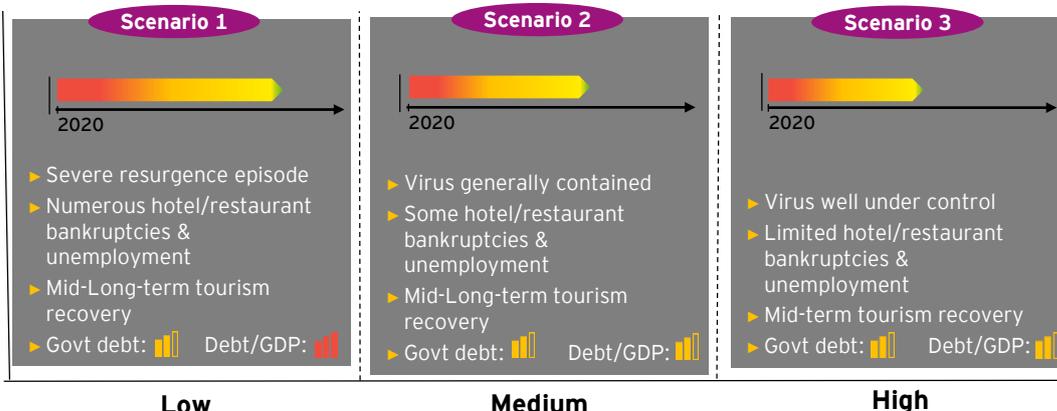
Executive Summary (cont'd)

Possible Scenarios for the impact of COVID-19 on the Tourism Sector



Partially effective economic response assumption

- Solid fiscal/monetary policies, robust economy-wide but partial sector-specific measures, moderate timeliness, modest EU solidarity.
- Sector supply/capacity suffers some contraction, mild depression.



Depth of red colour indicates magnitude of COVID-19's negative economic impact



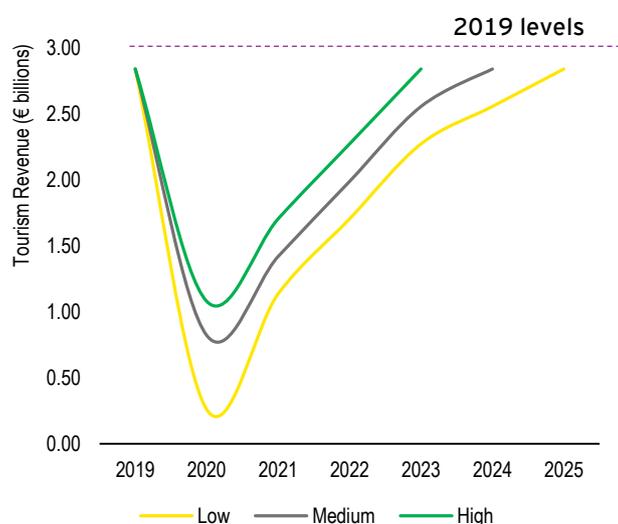
Sophistication/Effectiveness of pandemic countermeasures

Expected decrease in tourism revenues (receipts) in 2020 and length of recovery

Industry performance is largely dependent on external factors such as the Government's health-centric policies on social distancing and travel restrictions, in conjunction with measures undertaken in other countries, that will determine the timing and frequency of flight recommencement.

Scenario	Recovery Description	Revenue Decline (2020 vs. 2019)
S1 Low	Season missed for international market with no new arrivals until end of 2020. Domestic market returns in 2020 albeit with significant reduction compared to previous years	Decline of €2.5b – €2.6b in 2020 tourism revenues (90% ↓ vs. 2019)
S2 Medium	International flights/arrivals resuming, albeit at significantly reduced Rates, from Sep 2020. Domestic market exhibiting more moderate reduction to previous years' levels compared to S1	Decline of €1.9b – €2.1b in 2020 tourism revenues (70% ↓ vs. 2019)
S3 High	International market returning in Jul 2020, albeit still at reduced rates compared to 2019. Domestic market recovering at faster pace than other scenarios	Decline of €1.6b – €1.9b in 2020 tourism revenues (60% ↓ vs. 2019)

The graph below illustrates the sector's projected return to recovery based on the three scenarios used:



Recommendations

Measures to be considered in further supporting the industry in responding to the COVID-19 challenges:

- ▶ **Increased efforts in promotion and building market confidence;** sector-wide efforts targeting both individual holiday makers and tour operators.
- ▶ **Employment support measures;** in addition to subsidies, schemes aiming at retention of employment even on flexible/part-time basis.
- ▶ **Attracting the domestic market;** introduction of packages addressing this captive market, supported by Government where possible.
- ▶ **Further Tax Incentives and other forms of Government support;** -extension/increase of VAT reductions, -tax incentives/subsidies for infrastructure upgrades/ extensions during crisis (also including technology), -direct support in company liquidity through sector specific funding lines, -suspension of municipality taxes/charges, -reduction in utility rates, -extension of social insurance payment deferrals.

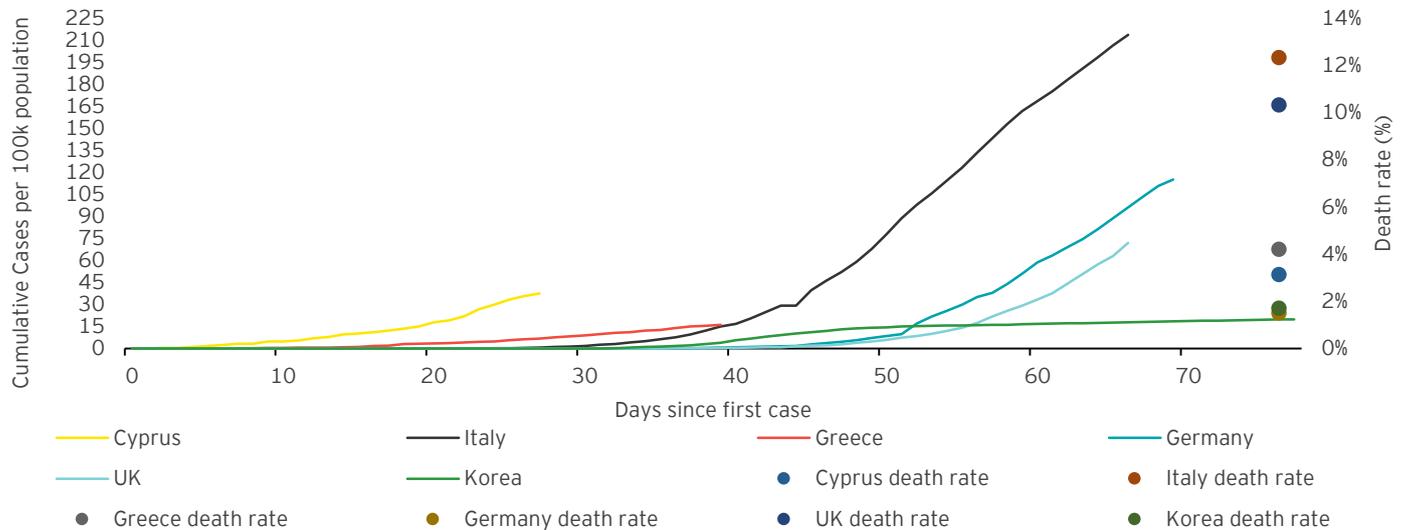
Preamble

COVID-19 - Key Facts & Figures

Introduction

The objective of the Industry Pulse report is to:

- ▶ Present a snapshot of the latest facts, figures, discussions and the industry sentiment around COVID-19
- ▶ Obtain the industry sentiment around the impact of COVID-19 on the Tourism sector
- ▶ Estimate the potential impact of COVID-19 on the given sector
- ▶ Discuss effective fiscal and monetary measures for mitigating the above potential effects



Governments' reaction

In response to the rapid spread of the virus to date (depicted in the adjacent graph) governments across the globe have adopted health-centric measures based on World Health Organisation's guidance¹, with the aim to control the human-to-human transmission of the virus, and care for those affected. The measures focused on the below:

- ▶ Support the healthcare system through investment in necessary equipment & staff, protect health workers safety, ensure critical care of non-virus-related incidents;
- ▶ Enforcement of social distancing, closures of school & public spaces, lockdown, curfew, quarantine;
- ▶ Control points of entry into country, through strict border or travel bans;
- ▶ Contact tracing to identify cases, surveillance and monitoring of the spread;
- ▶ Testing ability, prepare capacity of national and private laboratories for rapid and reliable tests.

The introduction of these health measures has necessitated the consideration of unprecedented fiscal and monetary interventions to limit the anticipated economic downturn²:

- | | | |
|----------|---|---------|
| Fiscal | <ul style="list-style-type: none"> ▶ Households: Income subsidisation and job guarantees, tax breaks, VAT reductions, extension of loan obligations and suspension of instalments. ▶ Businesses: Salary payments to employees, suspension of financial obligations, favourable loan terms, tax breaks, deferral of VAT payments as well as sector-specific measures. | Economy |
| Monetary | <ul style="list-style-type: none"> ▶ ECB monetary support to governments such as additional asset purchases of €120bn until end-2020, an additional €750bn asset purchase program of private and public sector securities (Pandemic Emergency Purchase Programme), removal of issuer limits from bond-buying programs to allow central banks to push borrowing costs down, relaxation of collateral standards for Eurosystem refinancing operations. ▶ ECB to facilitate banks' provision of the necessary liquidity to borrowers, temporary relaxation of: Pillar 2 Guidance and liquidity coverage ratio, as well as flexibility in classification requirements and expectations on loss provisioning for non-performing loans that are covered by public guarantees. ▶ EU finance ministers have agreed on €540bn package of measures to support governments as they take on unprecedented debt burden: €100bn for joint employment insurance fund, €200bn for liquidity to companies through European Investment Bank instrument and €240bn for credit lines from European Stability Mechanism³. Possibility of an additional temporary fund to help hardest-hit economies and discussion of option for joint sovereign debt issuance (corona bonds). | |

1. <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance>
 2. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>
 3. <https://www.bloomberg.com/news/articles/2020-04-09/eu-finance-chiefs-agree-on-590-bln-virus-rescue-package>

Preamble (cont'd)

COVID-19 - Key Facts & Figures

Wider implications of COVID-19

The social and economic ramifications in the aftermath of the pandemic are expected to be severe and widespread. These will likely include:

- ▶ Decline in consumption
- ▶ Drop in investment
- ▶ Structural changes as affected sectors shrink
- ▶ Spike in unemployment
- ▶ Potential banking crisis
- ▶ Overleverage as debt to GDP ratio spirals
- ▶ Sustained burden on the healthcare system
- ▶ Long-term loss in productivity
- ▶ Poverty increase
- ▶ Increased digitalisation

According to the latest worldwide research and discussions, expected timeframes for key medical solutions are:

- ▶ Vaccination: 12-18 months
- ▶ Drugs/cure: 6 months ++ (timing highly uncertain)
- ▶ Antigen (polymerase chain reaction "PCR") tests that are cheap, mass-scalable and reliable : 1-3 months
- ▶ Antibody (immunity) tests that are cheap, mass-scalable and reliable : 1-3 months



Preamble (cont'd)

Global Tourism Industry & COVID-19

The following pages address the growing performance of the global and local tourism industries during recent years and the anticipated COVID-19 impact on their impressive growth.

This Pulse report, survey and results, address the COVID-19 impact on the Cyprus Tourism Industry on the basis of its effect on tourist arrivals and tourist spending. A similar approach was adopted by the World Tourism Organisation in the case of the global industry. In the case of Cyprus, the analysis excludes revenues associated with air travel and related costs (the great majority of which stays outside the local economy). Moreover, the qualitative part of the analysis and the survey has focused on the hotel sector alone; representing the majority of the tourists' spending while in Cyprus.

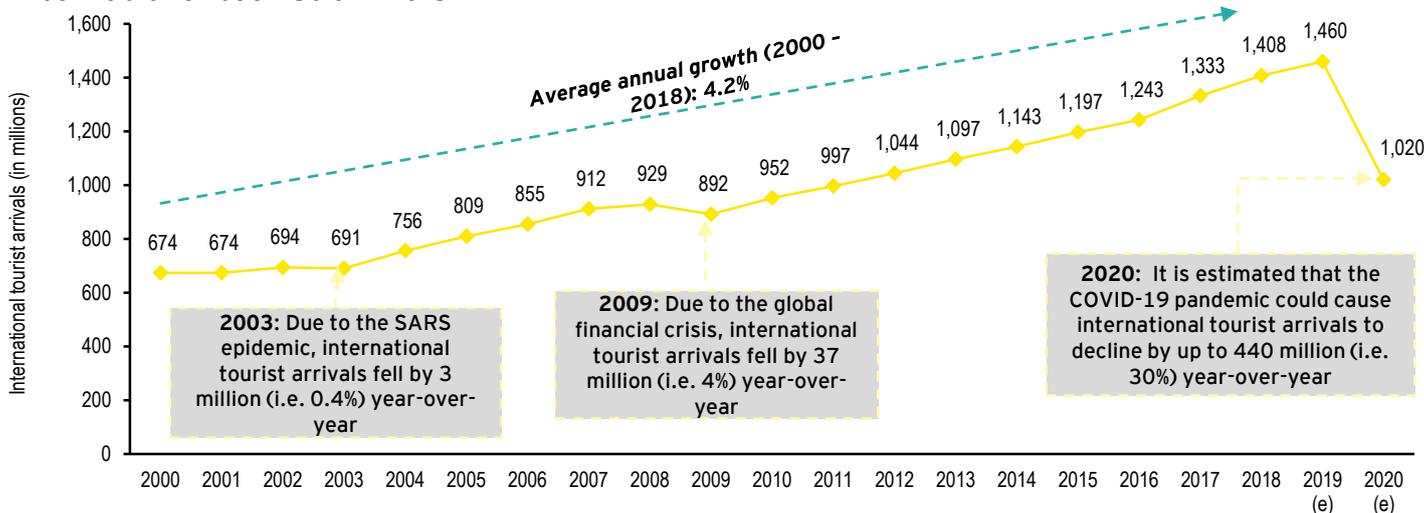
Recent past performance of Global Tourism Industry and COVID-19 impact

Based on World Tourism Organization ("WTO"), international tourism has experienced a continued expansion in recent years, withstanding set-backs from the SARS epidemic (2003) and financial crisis (2009). Historically, the sector has demonstrated resilience to demand shocks and has acted as a pillar for economic recovery in other sectors through ripple effects.

According to WTO, total international tourist arrivals reached 1.5 billion in 2019; with a year-on-year increase of 4%. International tourism receipts⁽¹⁾ reached US\$1.5 trillion in 2018 and are estimated at similar levels for 2019.

In view of the COVID-19 pandemic, WTO projects that international tourist arrivals in 2020 could experience a year-on-year decline in the region of 20% to 30%. This translates to a staggering loss between US\$300 billion to US\$450 billion in receipts.

International tourist arrivals



International tourism receipts⁽¹⁾



Notes: 1. International tourism receipts are defined by WTO as expenditure of international inbound visitors (including their payments to national carriers for international transport). They also include any other payments or payments afterwards made for goods and services received in the destination country.

Preamble (cont'd)

Cypriot Tourism Industry

Recent past performance

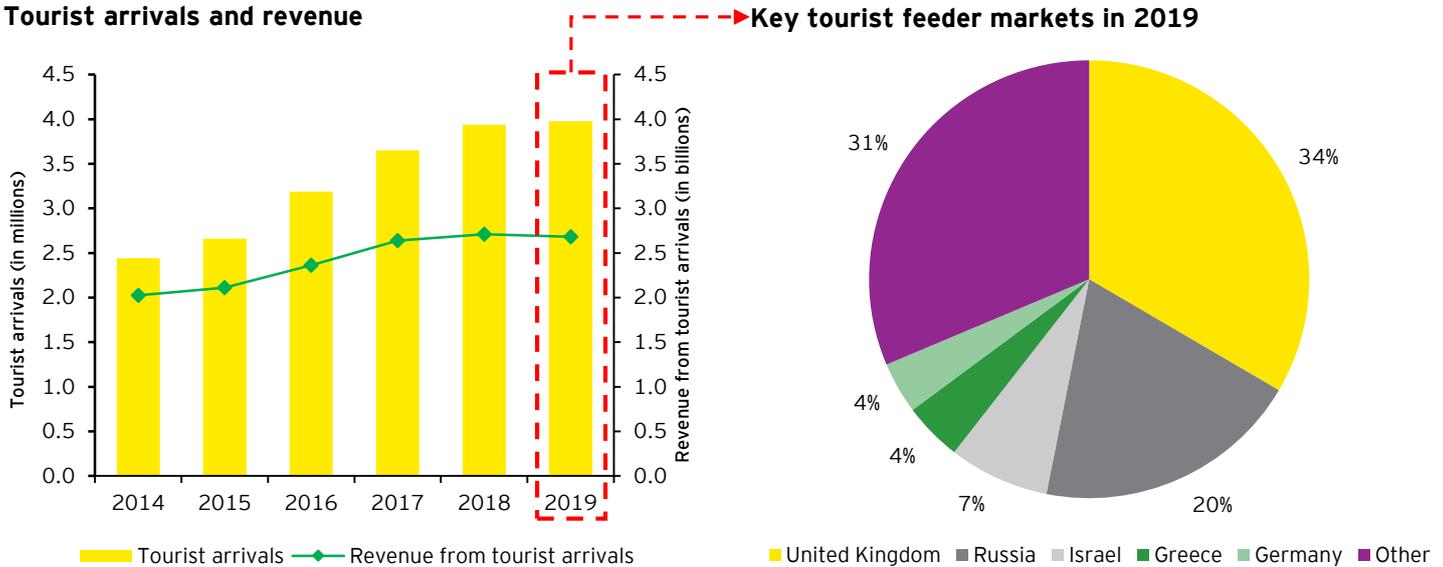
In line with the global tourism sector, the Cypriot sector has experienced consecutive and rapid growth since 2015. Record year-on-year tourist arrivals during the last five years, coupled with sizeable investments in tourism infrastructure, contributed to the sector's upwards trajectory and its re-establishment as a key pillar of the local economy.

In economic terms, the Cyprus Statistical Service reported that direct revenues from the 4 million tourist arrivals in 2019 (majority from the UK and Russia) reached €2.7 billion, accounting for the equivalent of 12.2% of nominal GDP⁽¹⁾. The sector also employed c.30,000 people during the peak season of the same year.

The sector's attractiveness and growth have fuelled a surge in upgraded tourism infrastructure such as new hotels (as depicted by the significant increase in new hotel building permits since 2015), mixed-use marina developments, golf courses and the largest casino resort in Europe set to open its doors in 2021.

The rapid growth and contribution of the sector to the local economy are summarised in the charts below.

Tourist arrivals and revenue

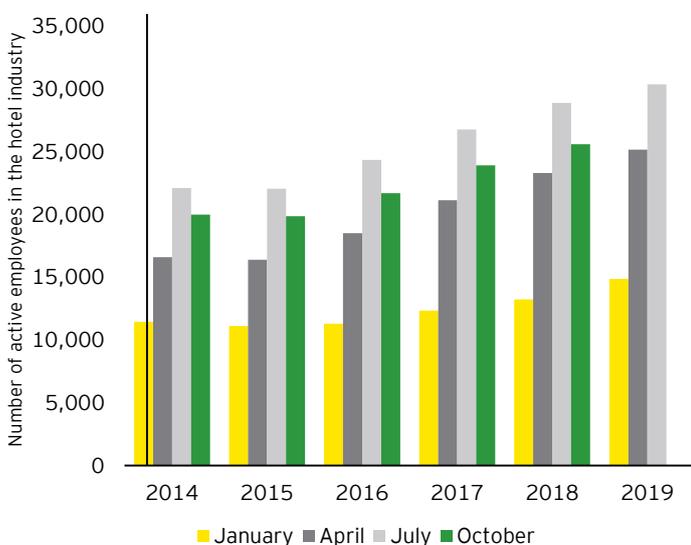


Note: Revenue from tourist arrivals includes visitors' accommodation spending and other expenditure during their stay (such as food & beverages)

Source: Cyprus Statistical Service

Source: Cyprus Statistical Service

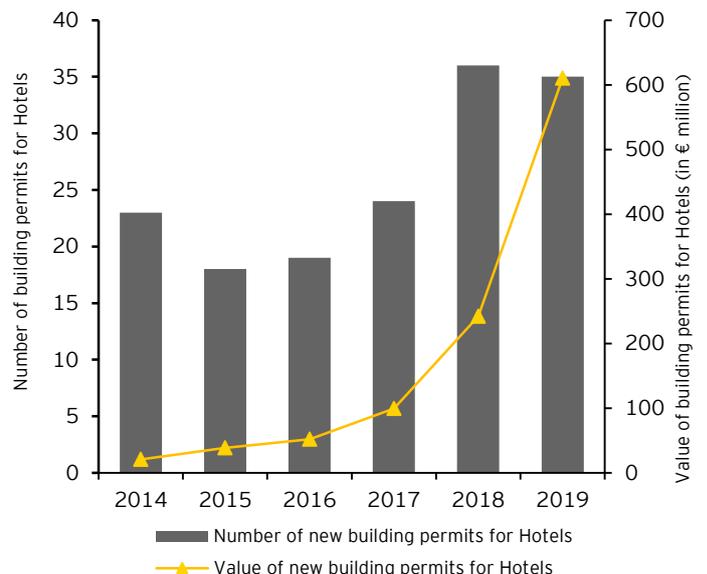
Number of persons employed in hotels



Note: As of the date of this document, the October 2019 figures had not been released by the Social Insurance Services

Source: Social Insurance Services

Number and value of new hotel building permits



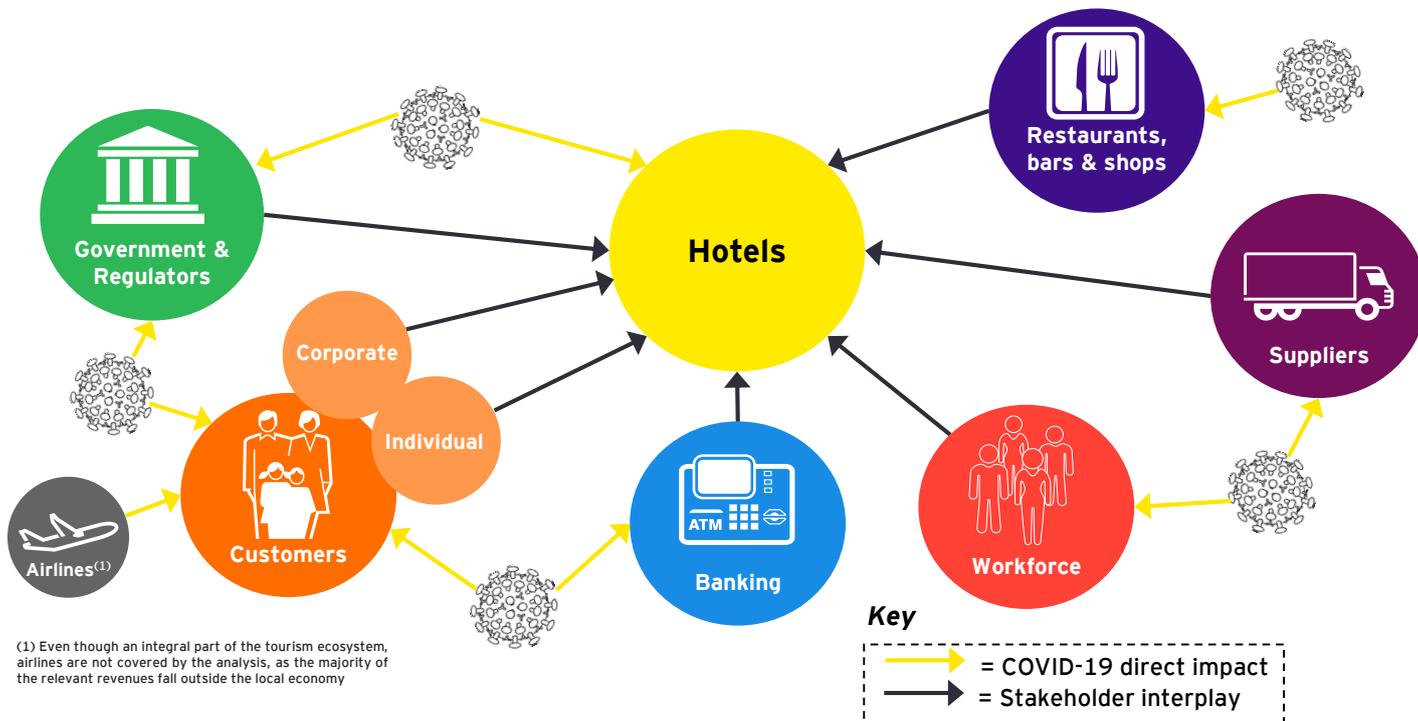
Note: Number of building permits excludes other touristic establishments such as tourist apartments and villages

Source: Cyprus Statistical Service

Notes: 1. In line with the latest National Accounts published by CyStat, Cyprus' GDP in 2019 was €21.9 billion.

Tourism stakeholder map and COVID-19 Impact Sector's Ecosystem, Key Pain-Points and Reactions

The Cypriot tourism ecosystem is highly dependent on a range of stakeholders. Below we illustrate the impact of COVID-19 on key stakeholders and the resulting effect on the sector. We also address the expected reactions of these players in their effort to respond and adapt to the new situation imposed by the pandemic.



Hotels

COVID-19 impact

- ▶ Significant reduction in revenue (more than 50% drop compared to 2019) due to the cancellation of bookings/events and the suspension of operations
- ▶ High fixed costs and increased costs in other expense categories (such as Health & Safety) hurt bottom line profitability
- ▶ Cash liquidity pressure as revenues fall dramatically but fixed costs remain
- ▶ High uncertainty surrounding the pandemic hinders management planning

Reaction

- ▶ Full or partial suspension of operations to mitigate losses
- ▶ Reduction of room rates to stimulate demand by, e.g., attracting tourists from the domestic market
- ▶ Focus on working capital management including collections, credit term renegotiations, adjustment of orders
- ▶ Cost-saving exercises including staff cost reductions, suspension of advertising and promotion plans
- ▶ Deferral of non-essential planned capital expenditure such as hotel renovations and extensions

Customers

COVID-19 impact

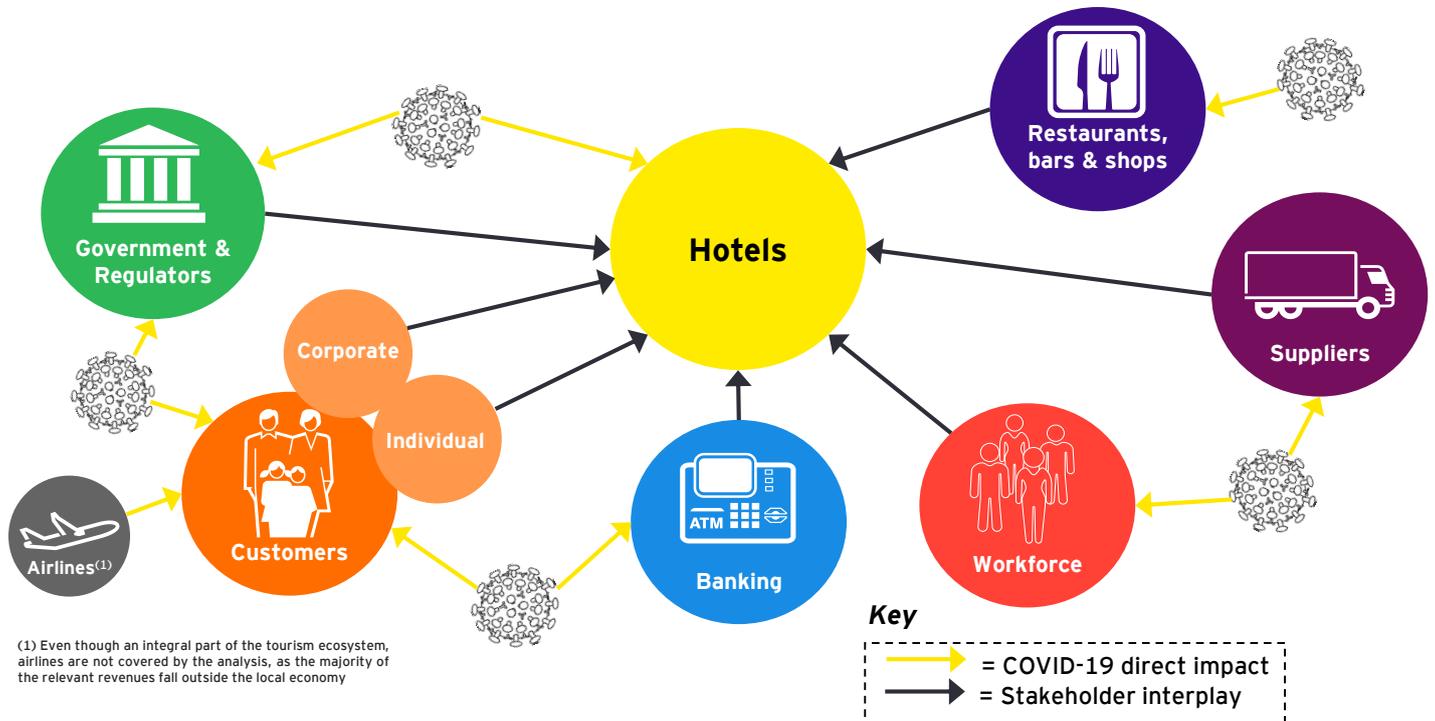
- ▶ Customers face lockdowns and travel restrictions in the short run, stringent border controls and security queues at airports for the duration of the pandemic
- ▶ Job insecurity and uncertainty over disposable income, together with the risk of infection, deter new holiday bookings even after social distancing measures are relaxed
- ▶ Corporate clients (such as tour operators) face cancellations/refund requests and liquidity pressure. Some struggle to make ends meet; some are forced to apply for liquidation/downscaling of operations

Reaction

- ▶ Cancellation or postponement of holidays for the length of the pandemic as prevailing uncertainty dampens mood for holiday planning
- ▶ Reduced spending due to decrease in holiday budgets exerts pressure on prices
- ▶ Short-term change in customer behaviour away from hotels and organised holidays towards smaller groups/accommodation units like holiday villas to minimise COVID-19 infection risk
- ▶ Corporate clients fail to meet their contractual payment terms or using force majeure provisions to get out of contractual obligations towards travellers and hoteliers

Tourism stakeholder map and COVID-19 Impact (cont'd)

Sector's Ecosystem, Key Pain-Points and Reactions



Banking

COVID-19 impact

- ▶ Decreased ability of hoteliers and related stakeholders to service debt obligations leads to an increase in NPEs
- ▶ Reduction in new business lending as hoteliers put on hold planned expansions and other capital expenditure
- ▶ Reduction in banks' profitability due to provision of liquidity at lower interest rates, debt restructurings, NPE provisions and write-offs

Reaction

- ▶ Banks provide flexibility to hoteliers to defer and/or restructure their debt obligations
- ▶ Extension of low-interest funding to travel and tourism companies as a stimulus to prevent defaults

Government & Regulators

COVID-19 impact

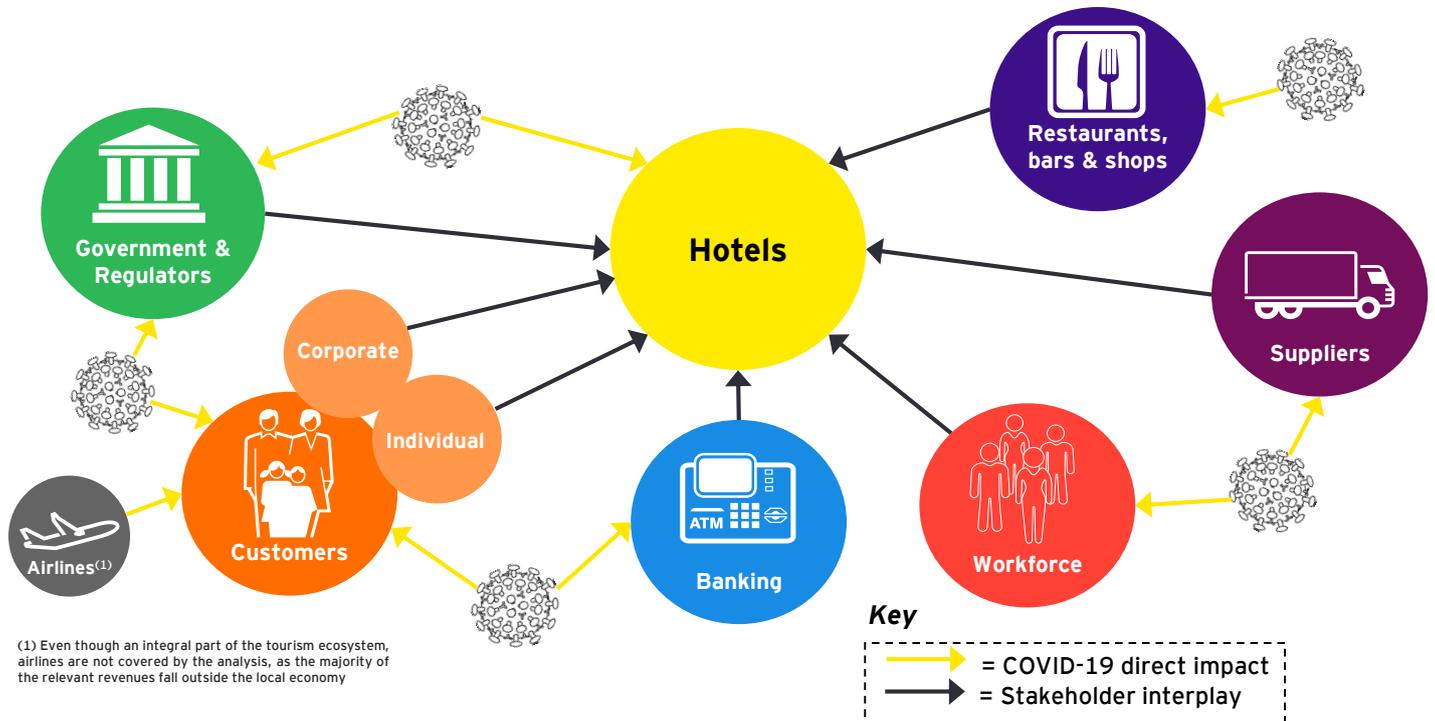
- ▶ Suspension/downsizing of hotel operations leads to reduced Government inflows in the form of taxation (e.g., direct/indirect tax, municipality taxes)
- ▶ Decline in governmental inflows through the adverse economic impact on other players relying on the hospitality sector such as hotel suppliers
- ▶ Pressure on Government to support the economy and social welfare

Reaction

- ▶ Fiscal and financial support measures to provide a cushion for the sector and boost liquidity such as guarantees and financial assistance for hospitality companies, staff compensation schemes, deferral of tax payments and reduction of tax rates such as VAT
- ▶ Incentives offered to key players in the international market, like airlines and tour operators, to include Cyprus in their future packages and at attractive prices. Consideration of subsidies, guarantee or other forms of support to these players
- ▶ Launch of international marketing campaign promoting Cyprus as a tourist destination, especially during the period between September to November when the island enjoys mild climate compared to competing destinations

Tourism stakeholder map and COVID-19 Impact (cont'd)

Sector's Ecosystem, Key Pain-Points and Reactions



Workforce

COVID-19 impact

- ▶ With payroll being the highest expense item for hoteliers, cost-cutting measures threaten workforce through salary reductions, redundancies and halt on new recruitments, leading to an increase in sectoral unemployment and reduced disposable income for employees
- ▶ Increased health and safety concerns of the workforce in hotels due to exposure
- ▶ Staff face difficulties in carrying out normal duties due to children out of schools, quarantines etc.

Reaction

- ▶ Staff apply for relevant Government support schemes
- ▶ Staff consider alternative income sources in order to compensate for the loss
- ▶ Costly additional procedures required to secure the health and safety of staff
- ▶ Staff likely to reduce own spending in order to deal with insecurity and lower disposable income

Suppliers

COVID-19 impact

- ▶ Suspension of hotel operations leads to steep decline in demand for their suppliers (food & beverage, linen, toiletries, etc.). This is expected to continue for 2020 as occupancies remain low
- ▶ Some hotels default on payments to suppliers for existing balances due to cash liquidity issues
- ▶ Supply chain disruptions due to lockdowns and other restrictions (e.g. transportation issues, production issues)

Reaction

- ▶ Cost-cutting actions by suppliers, including staff redundancies
- ▶ Adjustment of Working Capital management by suppliers (change of credit terms, reduction of inventories, etc.)

Restaurants, bars & shops, transport companies

COVID-19 impact

- ▶ Significant reduction in revenues directly due to lockdown and indirectly due to the suspension of the hotel operations
- ▶ Liquidity pressures

Reaction

- ▶ Suspension of operations
- ▶ Actions to maintain liquidity such as cost-cutting and working capital adjustments

Industry Sentiment EY Survey

EY carried out a Survey in early April 2020 covering the potential impact of COVID-19 on the Cypriot Tourism sector. Executives and owners of major Cypriot hotels and hotel chains were invited to share their sentiment on the impact of COVID-19 on the sector. The Survey spans financial, operational and strategic considerations and key results are presented in the following pages.

Responses reflect the views of the participants at the specific point in time. All participants expressed the position that the COVID-19 environment is constantly changing, creating new facts and making any predictions inherently difficult.

Q What has been the revenue effect from booking cancellations for 2020 so far? What is your perspective on the year's outlook from a financial point of view?

- ▶ All participants highlighted that reservations until the end of May 2020 were either cancelled or deferred. Similarly, bookings for June 2020 are currently at low levels and likely to be also cancelled.
- ▶ The great majority of the participants expect an overall reduction of at least 50% in their revenue for 2020 compared to 2019. They also project a reduction of more than 50% on the average occupancy.
- ▶ Participants raised concerns that people will opt to spend summer holidays in home countries, even after relaxation of measures. Reasons cited include fear of infection, lack of annual leave having spent it during the lockdowns to take care of family members, job insecurity and active encouragement by their governments for domestic tourism.
- ▶ The great majority of the participants expect 2020 to be a loss-making year, with a material risk of missing the rest of the season.

Q When do you expect to resume operations? What is your perspective on the year's outlook from an operational point of view?

- ▶ Only 25% of participants were optimistic for resuming operations by July 2020.
- ▶ More than half of the participants noted that they are considering in their options a scenario of either not opening at all or only opening a small number of their units in 2020. In the latter scenario they consider operating at around half of their capacity.



“It is vital that all hotels re-open in July 2020 to project confidence and send a clear message to global markets and tour operators that we are back and ready for business”

- Survey Participant

Industry Sentiment (cont'd)

EY Survey

Q How do you think the industry will respond to this crisis? What measures do you intend to adopt to manage the situation?

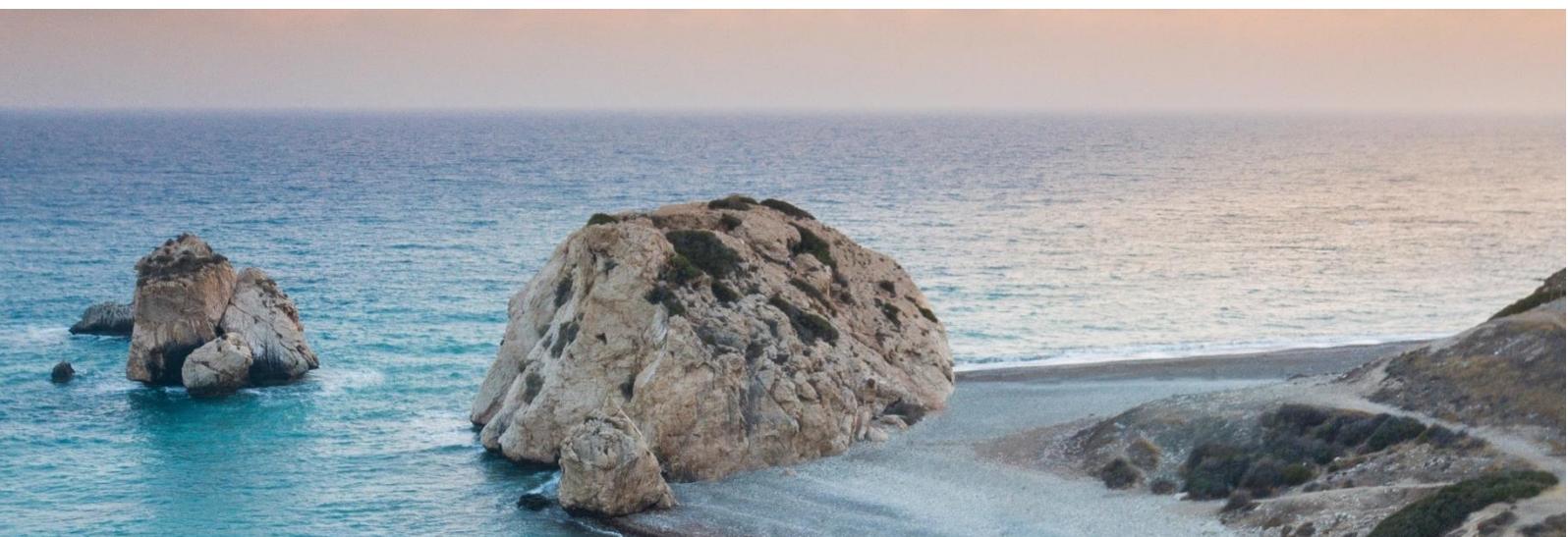
- ▶ Half of the participants intend to increase their focus on the domestic market. Local market size traditionally was around 10% of total, hence the impact from increase in domestic tourism is expected to be small.
- ▶ Most of the hotels that will target the local market are considering offering rate reductions between 20-30%.
- ▶ Luxury resorts to refrain from material discount offerings for domestic market, in line with branding strategy.
- ▶ Majority of participants feel that the option of refundable bookings should be further considered in order to reduce the risk for holiday-makers until confidence is reinstated. Such schemes can be offered in coordination with airlines and local authorities to cover the full package.
- ▶ A number of participants expressed concerns in relation to the high dependency on major tour operators and airlines that are under severe financial stress because of the prevailing pandemic.

Q When do you estimate that the industry will make a full recovery and return back to 2019 levels?

- ▶ Only 40% of the participants are optimistic that the industry will recover by 2021, returning back to 2019 levels. Another 25% forecast that recovery will be achieved in year 2022, while the remaining expect a slower recovery rate.
- ▶ Participants stressed that sector recovery depends on medical developments and time taken for a vaccine/ cure to be developed, as well as the overall response of different governments.

Q Are you facing any cash flow problems at the moment? If yes, will you be seeking liquidity support from the banks?

- ▶ Most participants are monitoring short term cashflow and working capital management and adjusting business plans.
- ▶ Some participants are thinking of cost reduction exercises and the majority are considering staff redundancies.



Industry Sentiment (cont'd)

EY Survey

Q How is the COVID-19 scenario expected to affect the behavior of prospective guests?

- ▶ Expected preference for domestic tourism in 2020, progressively reversed following medical developments and relaxation of travel restrictions.
- ▶ More than half of participants expect visitors to avoid crowded spaces such as planes, trains, cruise ships and busy hotels. This will force businesses to adapt and market their products accordingly. For instance, airlines promoting empty seats between passengers, hotels working at reduced capacity by not opening all rooms, hotels offering seated breakfast as opposed to buffet.
- ▶ Some participants expect growth in demand for alternative forms of accommodation in the short term, like self-catering villas.
- ▶ Some participants expressed the view that Mediterranean destinations, such as Cyprus, will 'steal' business from more exotic destinations in the Far East that were close to the virus epicentre.

Q How does the suspension of your operations impact your suppliers and other service providers?

- ▶ More than 70% of participants have put on hold all their sales and marketing campaigns.
- ▶ Around 30% of participants suggested that they have already frozen payments to suppliers relating to outstanding balances as part of their Working Capital management, until the uncertainty is removed. Some participants suggested that they have not frozen but have delayed some payments.
- ▶ Suspension of operations by supporting businesses (laundry, pastry manufacturers, etc.), in line with hotels in the area.

“Some of my smaller F&B suppliers are so heavily dependent on my operations that if I freeze payments to them for 3 months they will definitely go out of business”

- Survey Participant

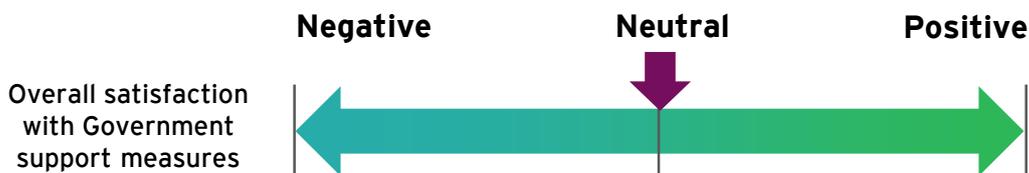
Industry Sentiment (cont'd)

EY Survey



How effective do you consider the COVID-19 support measures announced by the Government for the industry?

- ▶ Half of the participants were not positive with regards to the Government funding support channeled through the Cypriot banks, since they feel that banks will be late in releasing the funds due to bureaucratic procedures.
- ▶ A number of partakers expressed the position that they are still considering their participation in the workforce support schemes, as they felt that there are still grey areas to be resolved. They opt to retain flexibility of resuming downsizing as payroll is their highest fixed cost and they want to retain control.
- ▶ Some participants propose that the Government invests more in the promotion of Cyprus as a tourist destination.
- ▶ Proposed investment in retaining and strengthening communication with key market players such as operators and airlines.
- ▶ VAT reduction and deferral of payments was seen as a positive move.



They also said:

“ This is a global crisis. Even if all COVID-19 incidences are eliminated locally we are still dependent on the progress achieved in our feeding markets and the policies/response of these countries to the crisis

“ The UK was so late in implementing restrictions that I feel we will not have any tourist arrivals from our largest market before September 2020 in the best case scenario



“ It is imperative that we continue building on our relationships with operators and Cyprus promoted an all-year round destination

“ COVID-19 could also change our marketing in the near future, with carefully chosen references to COVID-specific counter measures and H&S policies becoming an integral part of our promotion

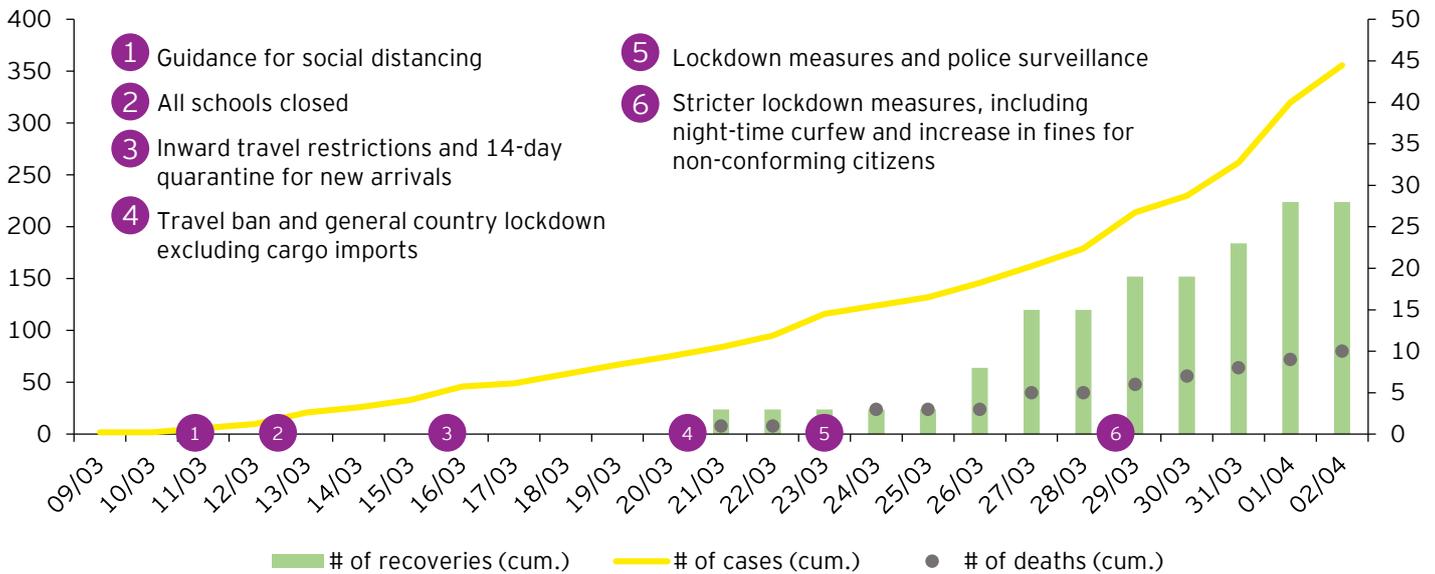
“ A fundamental issue for Cyprus has always been flight connectivity. The Government should subsidise flights to key European cities at least 2-3 times per week

COVID-19 impact on Tourism

Overview of key considerations and scenarios

Health measures and virus control

In alignment with WHO guidelines, the Cypriot Government has imposed social distancing measures escalating to citizen lockdown and travel ban. The graph below illustrates the chronological escalation of these measures⁴.



These actions are estimated to reduce contact by 75%, which allows the virus to still spread albeit at a slower rate, alleviating the burden on the healthcare system and buying time until the threat passes⁵. Measures resemble those implemented in most other countries, especially in Europe and the US, but may vary in the future as each country decides to deal with the threat differently.

At current knowledge status, scientists speak of the following potential remedies:

- ▶ Development of vaccine in 12-18 months.
- ▶ Development of effective therapy protocol, based on existing (or new) drugs, to deal with acute symptoms and diminish mortality rate. Timing remains uncertain.
- ▶ Herd immunity through infection assuming immunity can last and no mutation.



In view of the uncertainty surrounding potential remedies, health-centric measures are developed with the understanding that the pandemic may last 12-18 months, that is the time needed for a vaccine to be developed and commercialized. Under this assumption, the Government has the following toolkit at its disposal:

- Varying degrees of lockdown and border control** applied in accordance to the capacity of the health system to accommodate and treat the infected. Notably, relaxation of social distancing measures and travel ban but return to strict lockdown once the number of new cases exceeds a certain threshold. This swinging between the two strategies makes little difference for economic revival and comes at a great political cost.
- Upgrading and scale up of antigen (PCR) testing capacity.** This would enable proactive regular PCR testing for large samples of the population to provide a representative view of the spread of the virus. PCR tests produce very few false positives but there is an issue with false negatives resulting from problems with collecting and processing patient samples. They can be used to confirm the infection but are less reliable in confirming its absence. Mass testing is estimated to be possible in 1-3 months.
- Contact tracing.** Testing can be used to identify people who are infected and, with the use of app-enabled (location-based) technology, contact tracing serves to find those people who have come into contact with infected persons so as to monitor/ isolate them. This option can be viable in 1-3 months.
- Immunity passports with antibody tests.** Large-scale antibody testing, once approved by authorities, can be used to identify those who have had the virus and are therefore potentially immune and can return to work. Private manufacturers have played an outsized role in the development of antibody tests but products still need to be validated by authorities for their reliability. Roll out is estimated at > 3 months⁶.

4. <https://www.pio.gov.cy/en/press-releases/>

5. <https://www.imperial.ac.uk/media/imperial-college/medicine/sph/ide/gida-fellowships/Imperial-College-COVID19-NPI-modelling-16-03-2020.pdf>

6. <https://institute.global/policy/suppression-exit-strategies-options-lifting-lockdown-measures-uk>

COVID-19 impact on Tourism (cont'd)

Overview of key considerations and scenarios

Health measures and virus control (cont'd)

Possible exit strategies are derived based on the above options and adjusted as the development of scientific remedies plays out. Such strategies vary in effectiveness in terms of how fast the country can begin exit from lockdown and travel ban (part exit) so that the economy can be resuscitated without risking a virus spread that spirals out of control and overwhelms the healthcare capacity.

We classify the ability of a country to respond to a pandemic into three levels of sophistication for the virus countermeasures. The higher the degree of sophistication, the more tools a country can deploy to respond to highly contagious pandemics and limit disruption to economy activity (more "exit" strategy options). It is evident that in the case of COVID-19, the benefit of utilizing the full suite of countermeasure tools outweighs the cost of deploying them until an effective therapy protocol or vaccine is developed, or until herd immunity is reached.

 Strategy components:	Sophistication of pandemic countermeasures		
	Low	Medium	High
▶ Govt applies various degrees of social distancing/border controls while keeping burden on healthcare system manageable.	✓	✓	✓
▶ Government performs mass scale & proactive sample PCR testing.		✓	✓
▶ Government employs app-based contact tracing.			✓
▶ Antibody tests used to allow immune people to exit isolation.			✓



COVID-19 impact on Tourism (cont'd)

Overview of key considerations and scenarios

Economic measures and anticipated recovery

The Cypriot Government has acted swiftly and with determination in both containing the virus spread and providing a soft cushion for the economy, for both households and businesses:

Fiscal Fiscal stimulus packages of total size €1.32bn⁷ (5.4% of GDP) deployed to (a) aid the health sector in combatting the pandemic; (b) provide income support to households through leave allowance for parents/ vulnerable groups, unemployment benefits and banning of eviction in case of failure to pay rent; and (c) support to affected businesses by paying employee salaries and deferring VAT payments and GHS contributions. Government to guarantee up to €2bn to banks emergency lending, pending approval by Parliament.

Monetary Monetary measures at EU level include ECB's Pandemic Emergency Purchase Programme to buy government and corporate debt, removal of issuer limits from bond-buying programmes, release of capital and liquidity buffers for banks, government guarantees for new loans and suspension of loan installments for nine months. Eurozone agreement of €540bn package to help battle the economic fallout is a significant milestone, though not yet agreed by leaders.

The degree of effectiveness of Government intervention depends on the combination, coordination and concerted implementation of fiscal and Eurozone monetary policy, that is timely, sufficient in magnitude, and targeted.

- ▶ **Monetary & fiscal measures.** Sophisticated combination and coordination of monetary and fiscal policies can maximize impact by reinforcing and providing financial backing to each other.
- ▶ **Coordination at Eurozone level.** The extent of quantitative easing, liquidity provision and relaxation of thresholds for banks are decided by the ECB, as are decisions affecting Government debt and financing mechanisms. And while all Eurozone economies are affected, those countries relying more heavily on tourism and with a weak banking sector (such as Cyprus) are in a more dire situation with respect to the pace of recovery than countries with a hefty reliance on manufacturing. Solidarity between Eurozone states will be key in how effective the economic measures are for supporting Cyprus.
- ▶ **Timeliness.** Effective measures will curtail bureaucratic procedures and be delivered swiftly to households and corporations, be based on latest scientific evidence, and adaptable as the situation evolves.
- ▶ **Magnitude.** Effective measures will near in size the extent of the expected loss in output. Government to date has announced packages of €1.32bn, 5.4% of 2019 GDP figure (compared to 3% European average), but loss in economic output is set to exceed this number and disproportionately affect different sectors of the economy.
- ▶ **Economy-wide vs. sector-specific.** As some sectors are hit harder by the pandemic, or have different pain points, fiscal stimulus packages targeted specifically to those sectors can be more effective in preventing high rise in unemployment and permanent contraction of the sector.

We consider three key scenarios of Government intervention in terms of their effectiveness to avoid a deflationary spiral leading into depression, and to lead to a quick economic recovery. The role of each policy component in each of the scenarios is depicted by the green bars. High effectiveness of intervention involves synchronized and sophisticated combination of monetary and fiscal policies, including sector-specific measures, careful planning to ensure that aid is transmitted to the appropriate recipients in a timely manner, monitoring to prevent misappropriation of aid, proactive expansion of fiscal stimulus package as needed. In terms of monetary policy, there is little space for maneuvering but EU-level solidarity matters.

Strategy components:	Effectiveness of intervention		
	Low	Partial	High
▶ Combination and coordination of monetary and fiscal policies.			
▶ Circumvention of bureaucracy in favour of timely transmission of financial aid.			
▶ Government expands fiscal stimulus package as needed.			
▶ Government successfully introduces sector-specific measures.			
▶ High EU-level solidarity/coordination/agreement and maintenance of ECB Quantitative Easing policy.			

The degree to which each policy component is successfully implemented is depicted by the green bars (mobile signal).

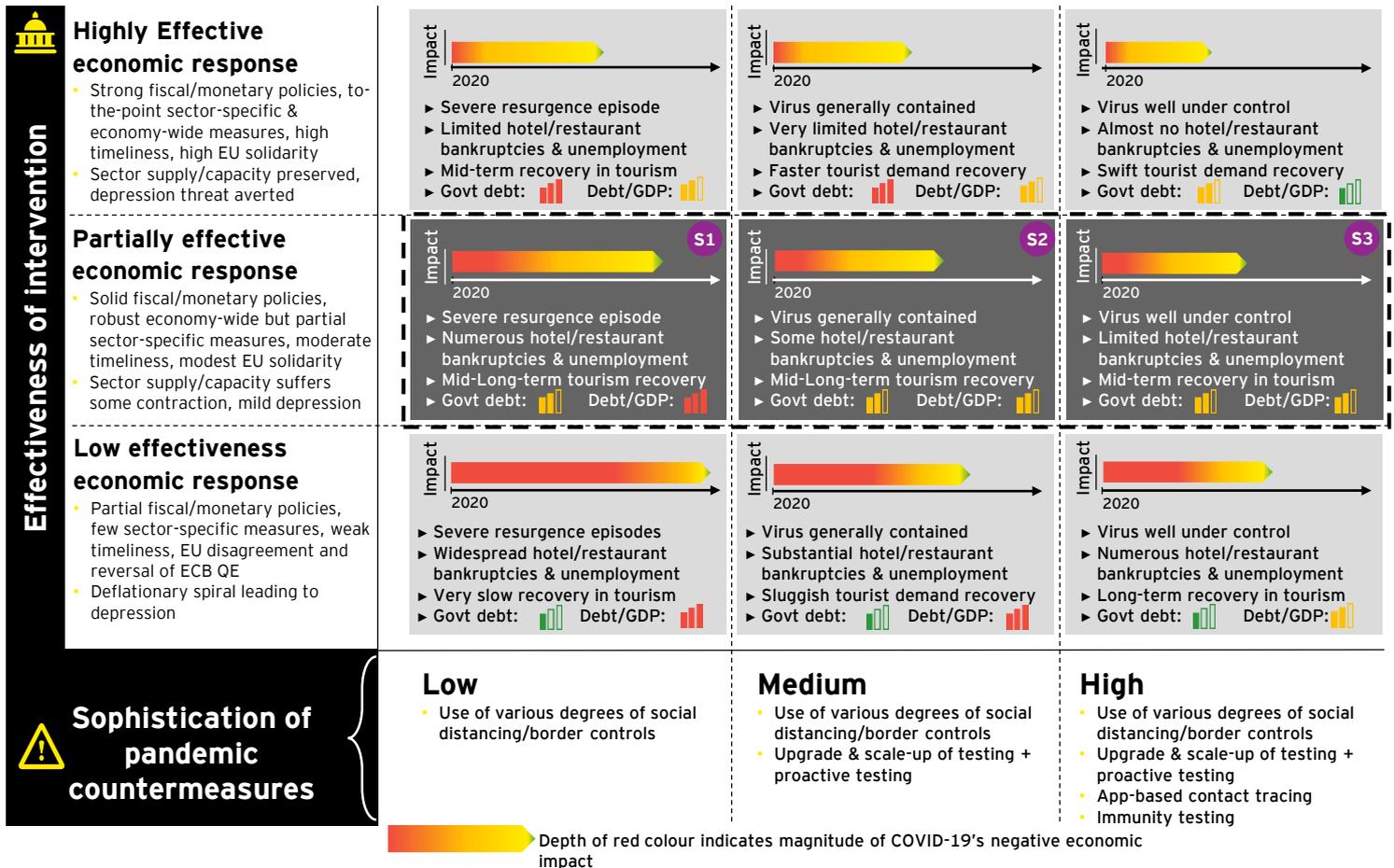
7. <https://www.pio.gov.cy/en/press-releases-article.html?id=13197#flat>

COVID-19 impact on Tourism (cont'd)

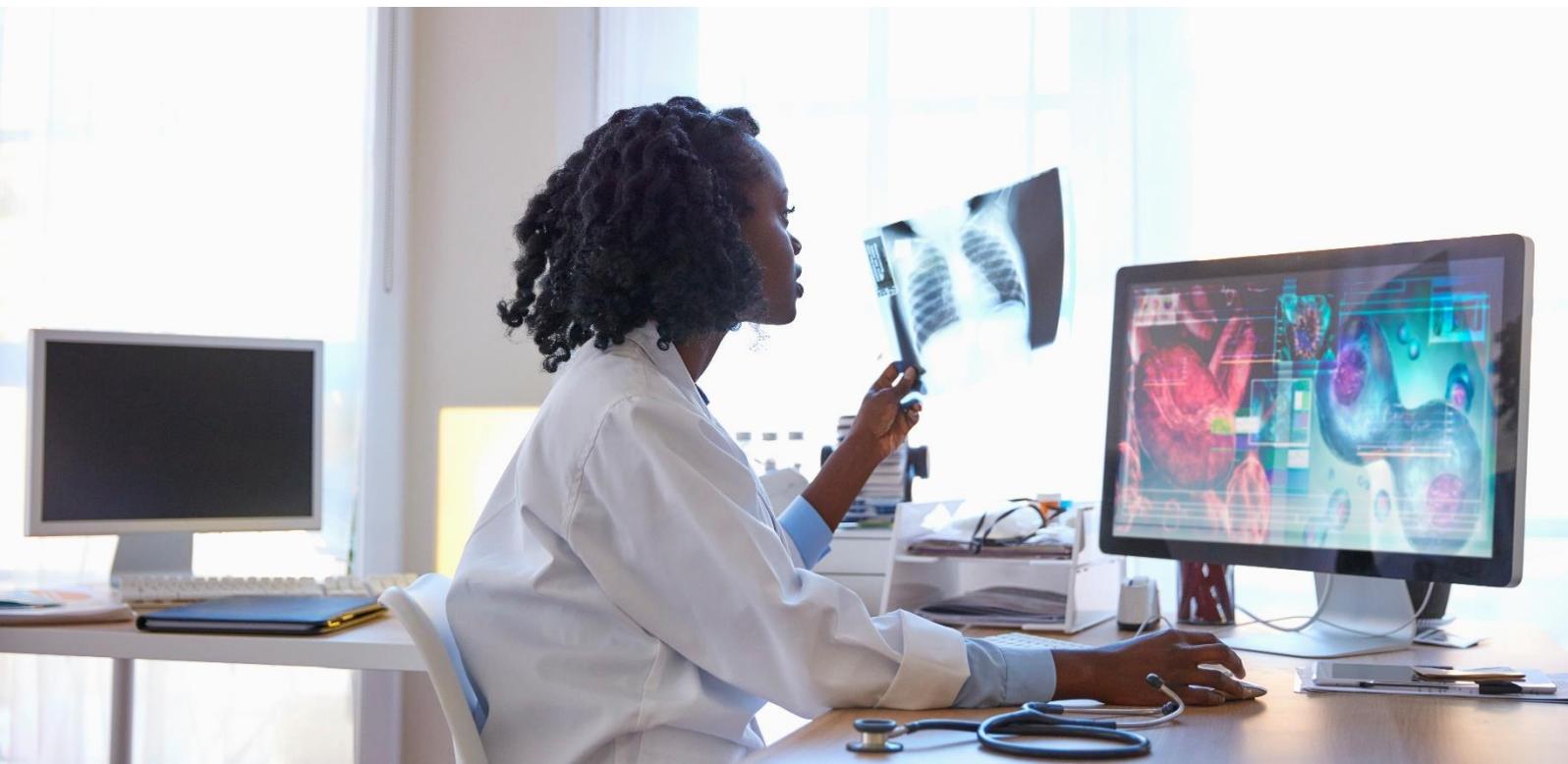
Overview of key considerations and scenarios

Scenario summary

In the matrix below we summarise and combine the virus control strategies with the economic & fiscal strategies outlined previously, so as to derive various scenarios for COVID-19's economic impact (under the assumption that the pandemic will last for 12-18 months). For each scenario we provide a brief description in the respective matrix quadrant, along with an illustration of the magnitude of COVID-19's negative economic impact, and its longevity:



The tourism sector horizon and impact is likely to move along the "Partially effective economic response" scenarios as presented in the above matrix and outlined with a purple dotted line above. On the next pages we illustrate the three scenarios in more detail and provide relevant commentary.



COVID-19 impact on Tourism (cont'd)

Scenario Analysis

Based on the scenario matrix outlined on the previous page, and in view of the responses gathered from the EY Survey, we outline below three indicative scenarios for the potential evolution of the sector together with the relevant assumptions. The following page also presents the projected recovery rate of the sector for each of the three scenarios.

The scenarios are built on the overall assumption of a partially effective economic response, based on the measures introduced so far to support the sector. These measures have been more economic-wide as opposed to sector-specific. The response of the market players in the sector on their introduction has been mixed and rather neutral; with a general request for further and more targeted interventions.

We highlight that the following content is provided for consideration only.

S1 Scenario 1 - Low sophistication of pandemic countermeasures

- ▶ This scenario represents the case where the industry remains out of business for the complete 2020 season, with countries' border closures effectively preventing inbound tourists for the rest of the year.
- ▶ No additional international tourist arrivals are projected, apart from the pre-lockdown arrivals of January, February and March.
- ▶ Average hotel prices experience a significant reduction as does the rest of the market.
- ▶ Domestic tourism is assumed to recommence following the lifting of local restrictions, albeit at considerably lower volumes compared to previous years.
- ▶ The tourism industry recovers promptly and returns back to 2019 levels in 2025.

S2 Scenario 2 - Medium sophistication of pandemic countermeasures

- ▶ This scenario assumes that international flights will resume during 2020.
- ▶ The Summer season is projected to be missed for the international market, with a slow return in foreign arrivals in September 2020 at a reduced rate of 40% compared to the equivalent month of the previous year. The monthly percentage decrease gradually shifts to 10% by the end of the year.
- ▶ Domestic tourism is again assumed to recommence following the lifting of local restrictions, albeit at modest volumes compared to previous years.
- ▶ The tourism industry recovers promptly and returns back to 2019 levels in 2024.

S3 Scenario 3 - High sophistication of pandemic countermeasures

- ▶ This scenario assumes that international flights recommence again during 2020, but at a quicker pace compared to Scenario 2.
- ▶ The international market is assumed to return by July 2020, albeit at a declined rate of 60% on arrivals compared to the equivalent month of the previous year. The monthly percentage gradually shifts to 10% by the end of the year. Spending from domestic tourism is assumed to be slightly lower than 2019.
- ▶ The tourism industry recovers promptly and returns back to 2019 levels in 2023.

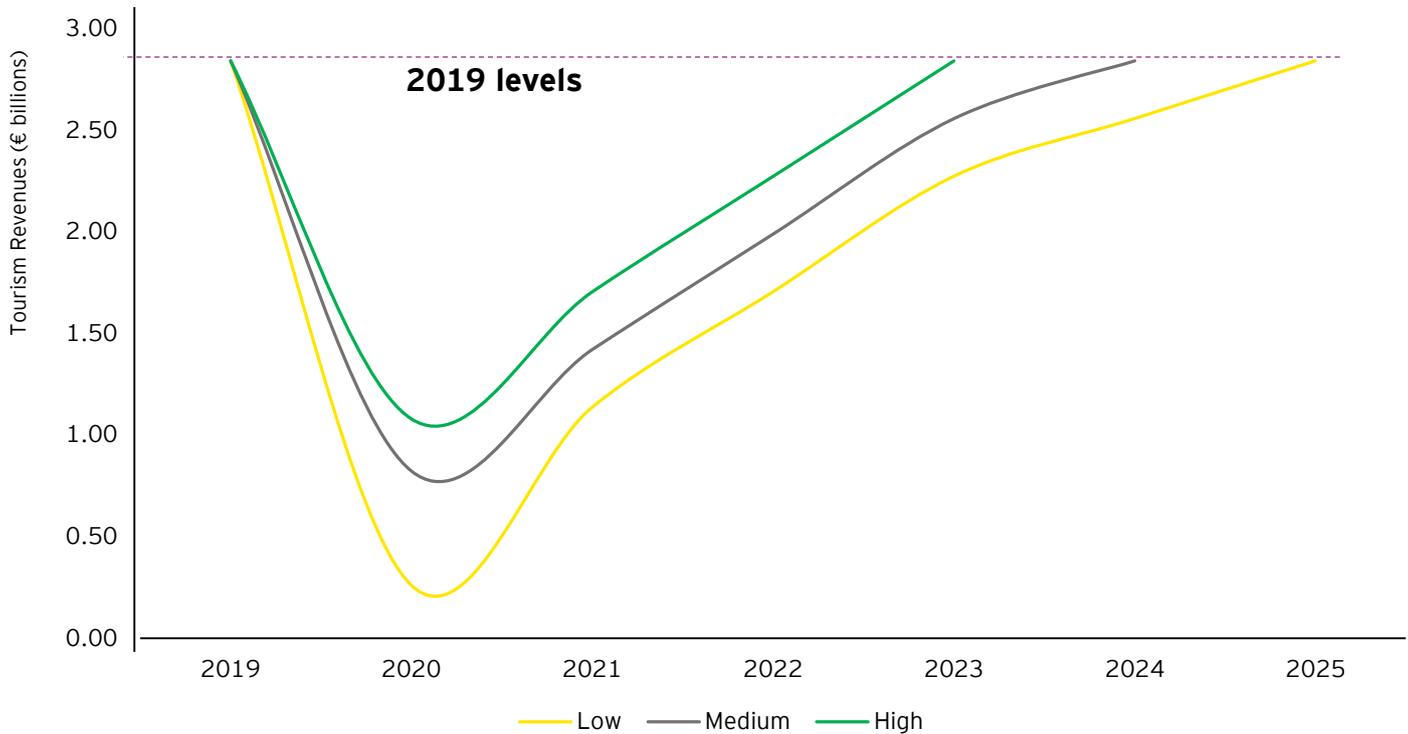
Potential decline in revenue from tourism for 2020 compared to 2019



COVID-19 impact on Tourism (cont'd)

Scenario Analysis

Graphical representation of the Low, Medium and High scenarios for industry recovery



The graph above illustrates the sector's projected return to recovery based on the three scenarios outlined previously.

- ▶ The **Low** scenario, being the case where the tourism industry takes the largest hit with no new tourist arrivals in the year, demonstrates a slower and longer-term recovery. The total revenue from tourism returns to 2019 levels by 2025.
- ▶ The **Medium** scenario, which assumes that foreign arrivals gradually recommence in September 2020 at low rates, exhibits a gradual but more moderate growth towards recovery. The total revenue from tourism returns to 2019 levels by 2024.
- ▶ The curve of the **High** scenario illustrates a stronger growth rebound with a recovery to 2019 levels by 2023.

Notes:

- The above scenarios are only indicative, based on historical data gathered from CyStat and Eurostat together with a number of assumptions. The assumptions by nature are uncertain and depend on a series of unknowns at this stage. The situation surrounding the COVID-19 outbreak is dynamic and changing rapidly on a daily basis. As such, the scenarios presented should by no means be considered as certain or accurate predictions for the future. They are only provided for discussion purposes.
- An asymmetry in the effectiveness of virus control between different countries could have a negative impact on the effectiveness of the measures implemented locally).
- There is considerable uncertainty surrounding the timing of an effective therapy protocol or vaccine, and the latter may not be a final solution.



Recommendations

Tourism-related suggestions for the post-COVID era

Below we outline certain recommendations for the consideration of the different sector stakeholders, such as corporate executives, financial institutions and the Government, in an effort to support them in managing the challenges of the COVID-19 crisis and to elicit a constructive discussion between them. These address ways of responding to the crisis in the shorter term and at accelerating recovery in the medium term once the pandemic is put under control.

Increased efforts in promotion and building market confidence

- ▶ Stakeholders can jointly contribute to sector-wide efforts of promoting Cyprus as a tourism destination. This can take the form of a joint marketing campaign to ensure that Cyprus remains high on the list of both tour operators and holiday makers. The Deputy Ministry of Tourism can lead this initiative.
- ▶ Maintaining and enhancing relationships with major tour operators through direct communication at all levels (including Ministry) throughout the COVID-19 crisis is key. The same applies to major airlines to ensure that Cyprus remains in their flight schedules with frequent connections.
- ▶ Another tool that can be used to increase confidence and boost demand is the offer of vouchers for cancelled holidays, an initiative that can be supported by hoteliers, airlines but also the authorities.

Employment Support

- ▶ Through the recent fiscal packages introduced by the Government, the local workforce is financially supported until 12 June 2020. To avoid the retrenchment of employees, a new combination of measures could be considered by businesses and the Government to retain employment such as:
 - Flexible and reduced working hours or the introduction of other mechanisms for part-time employment (as opposed to redundancies/unemployment);
 - Compulsory annual leaves in specific months;
 - Staff training/development under programmes subsidised by the Government during unemployment periods and through digitalised means during the COVID-19 crisis.

Domestic Tourism

- ▶ While not sufficient to cover the overall arrivals gap, domestic tourism can help narrow it. Special packages can be introduced to specifically target this market.
- ▶ The Government could consider actively support in the promotion of such packages and, if and where possible (public servants, families with low income etc.), could consider subsidising part of the package cost (e.g. 1 in every 3 nights covered by the state).

Tax Incentives and other forms of Government support

Additional areas that could help improve company liquidity and encourage sales:

- ▶ Extension of VAT reductions for all hospitality services (e.g. for 12 months) or even zero VAT in the case of bookings by the domestic market.
- ▶ Immediate Tax deductions or subsidies on all capital expenditures undertaken by hotels for the purposes of upgrading/extending their infrastructure during the COVID-19 crisis.
- ▶ Tax incentives/subsidies for investment in technology during the COVID-19 period.
- ▶ Suspension of municipality and other tax/charges for the sector during 2020.
- ▶ Direct support in the liquidity of companies through sector specific funding lines (companies will need to meet certain criteria and funding provided under certain conditions).
- ▶ Reduction in utility rates and bills for companies in the sector.
- ▶ Extension of deferral of social security and VAT payments.

Sector's Megatrends

Reshaping the Tourism sector in the short to medium term

EY has identified the following COVID-driven “paradigm shifts” within the global travel & tourism landscape that could be expected to influence the local tourism industry in the near term.

1. Change in passenger experience

Shortly after the virus is contained, international travel may not be a priority for the majority of the population due to COVID-19 “PTSD”. Challenges will be greater for businesses such as airports, cruise lines and airlines, which tend to attract large crowds in relatively small and confined spaces.

For those that do choose to tour, a shift in preferences is expected towards shorter-distance destinations (as opposed to long-haul flights). The following measures are expected to accelerate the recovery:

- ▶ Transformation of queue management to reduce waiting times and minimize health risk: Some airlines have already launched a virtual queuing feature on their apps notifying passengers when their seat is boarding.
- ▶ Contactless, self-service health screenings to form part of standard process such as at airport kiosks and bag drops.
- ▶ Airlines may be flying at reduced seat capacity to promote social distancing. Examples include carriers blocking the middle seats on their flights.

2. Smaller, less crowded hotels

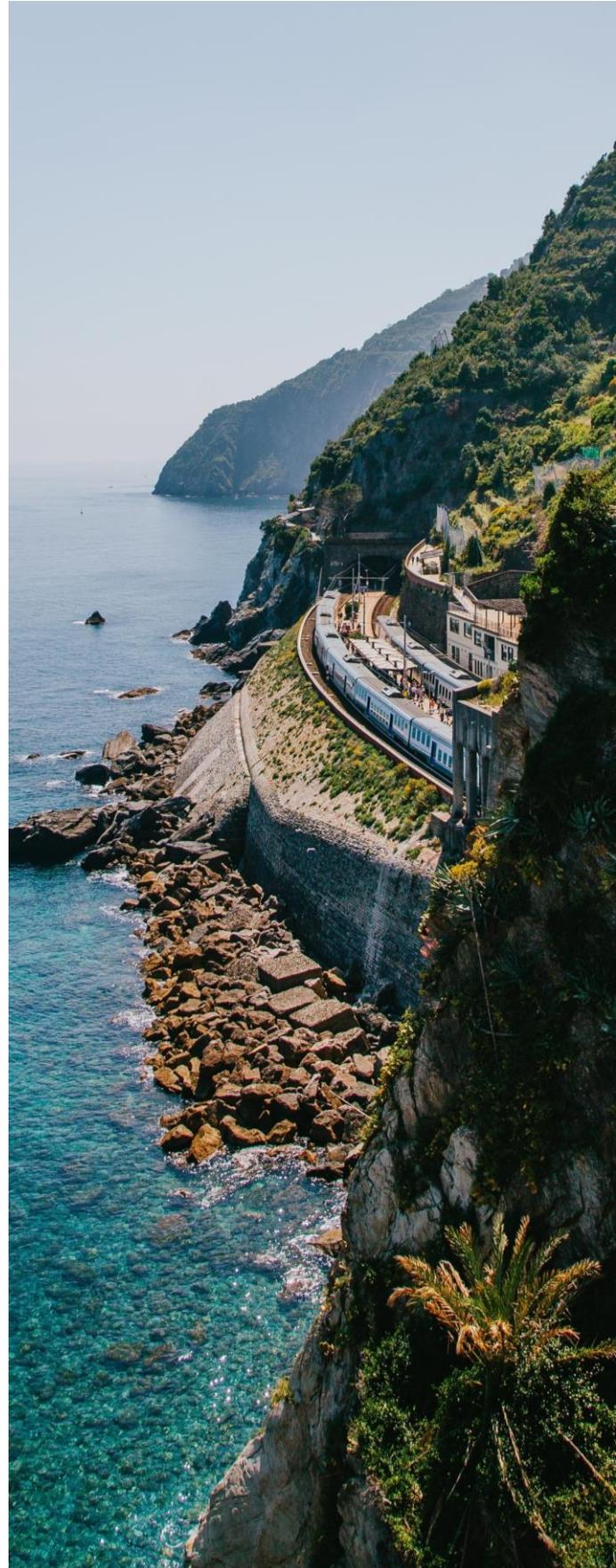
COVID-19 PTSD may mean a medium-term tendency towards:

- ▶ Boutique hotels (~<120 beds)
- ▶ More remote settings
- ▶ Standalone accommodation
- ▶ Rented self-catering accommodation (e.g. villas/apartments found on platforms such as Airbnb)
- ▶ Accommodation in establishments away from central touristic areas.

3. Increased health & safety measures

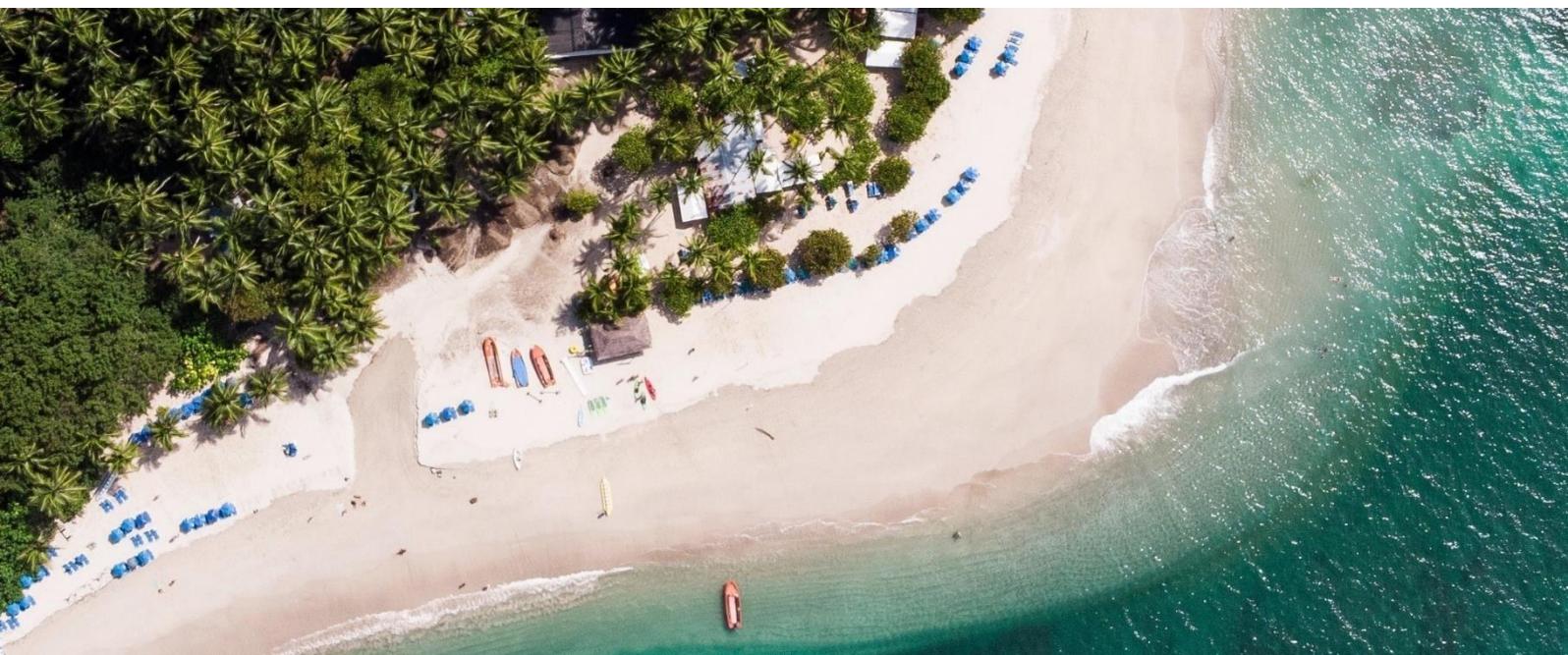
At a significant cost, hotels are expected to invest time and resources in stricter H&S regimes to mitigate risks and boost confidence of guests and staff:

- ▶ Hiring of extra housekeeping staff to enable more frequent sanitization of rooms and common areas as well as “touch points” such as elevator buttons and door handles.
- ▶ In the F&B department, hoteliers (especially the more luxurious establishments) may change their food serving model in favour of a la carte dining rather than self-service buffet.
- ▶ Education and training of management and staff on protocols for dealing with guests who appear ill or have tested positive for COVID-19.



Key Takeaways

- ▶ The COVID-19 crisis introduces significant challenges for the tourism sector; including cancellation of bookings, material revenue reductions, increased costs and liquidity pressures. Hoteliers are currently forecasting a **more than 50% reduction on their y-o-y revenues coupled with operating losses**.
- ▶ In response, they have **suspended their operations, adjusted their working capital management and are considering cost-cutting exercises**. Payroll is their largest cost and, despite relevant Government support measures, a number of hoteliers do not preclude the possibility of redundancies. The latter scenario is more possible in case the whole 2020 season is missed.
- ▶ The impact of the COVID-19 crisis on hotels is projected to **adversely affect a number of other key stakeholders in the market**, including but not limited to suppliers and the banking sector. In the case of smaller suppliers the resulting liquidity pressures may be severe enough to threaten their financial viability.
- ▶ Market players are also predicting **a change in customer behaviour** in the post-COVID era, at least in the shorter term; favouring domestic tourism, less crowded facilities and closer-to-home destinations.
- ▶ Government measures have been welcome by the market, however most players feel that **there is a need for additional and more targeted intervention**.
- ▶ Most predictions place a **recovery to 2019 performance beyond 2022**.
- ▶ Hoteliers will be called in the following weeks, as the virus spread goes past its peak and countermeasures are relaxed, to take important decisions regarding the commencement of their operation in 2020. In the medium term they will also need to consider how COVID-19 **will affect their business plans and readjust their strategies**.
- ▶ The **developments are changing rapidly** and need to be closely monitored.

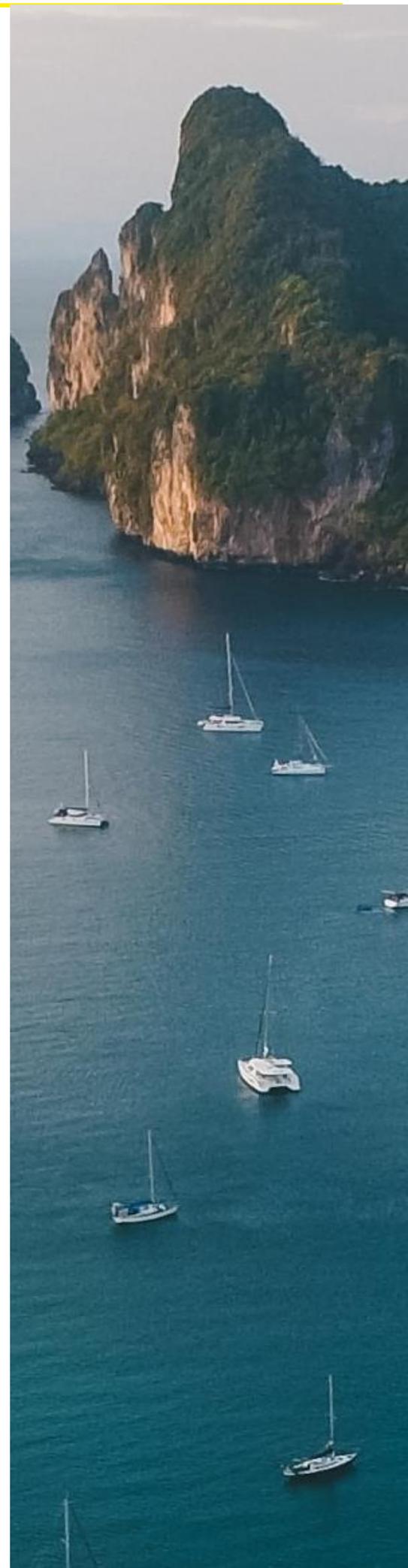


How EY can help

Services that bolster your resolve and reshape your future

 <p>Short-term cash & liquidity management</p> 	<ul style="list-style-type: none"> ▶ Analysis of cash gaps ▶ Identification of quick wins ▶ Dynamic forecasting of cash needs under crisis scenarios and identification of mid-term solutions
 <p>Financing options</p> 	<ul style="list-style-type: none"> ▶ Analysis of financing structure ▶ Identification of alternative options ▶ Securing non-bank / quick financing
 <p>Negotiations with banks</p> 	<ul style="list-style-type: none"> ▶ Advice with bank negotiations ▶ Lenders deck and banking presentation preparation ▶ Preparation of financial projections ▶ Capital structuring
 <p>Independent business review</p> 	<ul style="list-style-type: none"> ▶ Independent Business Review preparation for your lenders, creditors, etc. ▶ Stress testing based on market situation
 <p>Working capital advisory</p> 	<ul style="list-style-type: none"> ▶ Lean organisation and processes optimisation ▶ Supply and demand planning ▶ Assessment of key Working Capital drivers and cash release opportunities
 <p>M&A support</p> 	<ul style="list-style-type: none"> ▶ Divestment advisory ▶ Real-estate sales ▶ Quick direct sale process ▶ Identification of opportunities
 <p>Economic Advisory</p> 	<ul style="list-style-type: none"> ▶ Economic Impact Assessments ▶ Cost-Benefit Analysis ▶ Incentives analysis & planning ▶ Regulatory economics ▶ Competition economics
 <p>Corporate Finance Strategy</p> 	<ul style="list-style-type: none"> ▶ Corporate strategy ▶ Value optimisation ▶ Investment strategy ▶ Feasibility & business planning ▶ Portfolio strategy
 <p>Tourism & Hospitality sector expertise</p> 	<ul style="list-style-type: none"> ▶ Working Capital Management and assessment ▶ Short-term cash flow Advisory ▶ Independent Business Reviews ▶ Application of Government measures ▶ Risk assessment & Scenario planning ▶ Situation monitoring analysis & reporting ▶ Strategy update & Robustness check ▶ Legal topics ▶ Capital raising support / M&A ▶ Transaction support related services ▶ Economic impact assessment ▶ Incentives analysis & planning

Services relevant to:  Government/Regulators  Banks  Businesses



How EY can help (cont'd)

People



Stelios Demetriou
Partner / Transaction Advisory Services Leader
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Stelios has over 20 years of experience in advising leading hospitality and other clients in transaction services in Cyprus. He has helped leading groups in the sector to raise capital, led due diligences, handled merger and acquisition transactions, and advised on financial restructurings. He has also provided strategic advice to different stakeholders, including some of the largest hotel chains locally and the government.



Alexandros Pericleous
Director / Transaction Advisory Services
Alexandros.Pericleous@cy.ey.com

Alexandros focuses on strategy and corporate finance. He has helped clients reshape their results through regaining control of their cash and working capital, business planning and review, restructuring, renegotiating debt, and investing / divesting.



Andreas Anastasiou
Director / Transaction Advisory Services
Andreas.Anastasiou@cy.ey.com

Andreas was involved in financial advisory engagements for various clients in the hospitality sector. He managed teams involved in capital raising and debt restructurings, led due diligence exercises, prepared business plan and feasibility studies, and advised on transaction structuring and negotiations.



Savvas Proestos
Manager



Renos Solomides
Manager



Melina Moleskis
Assistant Manager

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- ▶ Comprehensive solutions
- ▶ International network
- ▶ Sector expertise
- ▶ Digital expertise

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