



Folio Hotels

Background

The group was formed in 2005 and pursued a strategy of rapidly acquiring leaseholds from hotel operators such as Corus, Regal and Swallow. Landlords funded the capital cost of improvements in return for higher rentals but the expected revenue increase lagged behind the higher rental costs. This effect was magnified by the onset of the economic downturn and some improvement projects stalled. As cash-flow deteriorated in 2008, management's attempts to negotiate rent free periods or rent reductions met with only partial success. Creditor pressure rose inexorably and by November 2008, Crown tax arrears totalled £4m.



MCR Involvement

The financial function was well managed and MCR was presented with sufficient information to evaluate the situation quickly. Nearly all the hotels were loss making and, even if no rents were paid for a period, the £3.75m overdraft would be breached in early December. Valuations were reviewed and the key assets, including £2.4m of book debts, were assessed. Three options were identified. The limited likelihood of landlords agreeing to a rent free period precluded a solvent restructuring. Trading the business in Administration culminating in a whole or partial shutdown was likely to be very costly and result in only limited realisation by the secured creditor. The early identification of a buyer willing to acquire the majority or all of the hotels and to assume the majority of the secured debt was vital. The preferred solution was a pre-packaged Administration.

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Outcome

Paul Clark, Philip Duffy and Jason Godefroy of MCR were appointed as Joint Administrators on 2nd December. This protected the group from precipitate action by any of the landlords or HMRC and the Administration strategy was to trade the group through the highly remunerative Christmas and New Year period whilst negotiating the sale of the Folio group as a going concern. All 2,200 hotel employees were retained. In return for payment undertakings, creditors guaranteed continuity of key supplies and the merchant services provider (credit card facilities) agreed to continue to support the group. Lastly, landlords agreed rent free periods which were important to the success of the Administration.

The final outcome resulted in the group being split into four parts. Going concern sales were agreed in January with Bespoke Hotels, the operator of the Home House private members club, taking control of 12 hotels on behalf of the purchasers and 19 hotels were sold to a newco run by the management team of Folio Hotels. Employees were transferred to the purchasers under TUPE and the return available to the secured creditor was maximised.

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Client Testimonial

"MCR's detailed, early consideration of all the possible strategic options was vital to the successful final outcome. MCR's ability to swiftly take control of the 34 geographically diverse hotels enabled successful trading at the seasonal peak and ensured the interest of the buyers in the group was maintained until completion".

High Risk Director - Clearing Bank plc

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FOR FURTHER ASSISTANCE, PLEASE CONTACT

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