

# INDUSTRY INSIGHTS

By Costa Nicodemou and Brett Lennane

## How to achieve a business turnaround – the case of Forest Resort



**Turning around a financially distressed business is never easy. But it is possible.**

Take the example of Forest Resort, an integrated holiday, golfing and conference destination in the heart of Victoria's central goldfields region.

BRI Ferrier was engaged in April 2014 to take control of the resort, which at the time comprised a 4½-star, 143-room Novotel hotel and conference centre, an 18-hole championship golf course, a land subdivision and a \$4 million waste-water treatment plant.

The mortgagee and two other insolvency firms had managed the property since the hotel opened in May 2009. Two international and national marketing campaigns had failed to achieve a sale.

On our appointment, the resort was an incomplete and poorly maintained development. Despite cost cutting by the previous controllers, the entity was still losing well over \$1 million per year, hotel service standards were deteriorating and revenues were flat.

Initially, BRI Ferrier was appointed to finalise the 'in line' sale of Forest Resort to a developer who planned to operate the hotel while selling down the resort-owned strata title hotel rooms to investors.

We were not satisfied, however, that the developer had the financial capacity to complete the purchase.

We also determined that fractured ownership, ongoing poor trading performance and the added complexity of the waste-water treatment plant would hamper a successful 'in line' sale of the resort to any other long-term investor.

Sale negotiations therefore ceased and we resolved to 'trade on' the resort until we could successfully take the property back to the market.

### The key issues

BRI Ferrier faced a range of issues in returning the resort to a position in which it would be attractive to a prospective purchaser. It was a complicated, distressed, incomplete development with loose ends in all areas.

A fractured ownership and stakeholder structure involved diverse interest groups, including Accor (the hotel operator) and its 150+ staff, 40 room investors, native title holders, 100+ land estate residents and tenants, 160 golf club members, the waste-water plant operator, local government authorities and previously 'burnt' investors, suppliers and employees.

## How to achieve a business turnaround – the case of Forest Resort

While the hotel was trading at a break-even position, overall losses for the property were well over \$1 million per annum, primarily due to problems involving the golf course, the poor trading performance of the hotel operation, weak land prices, negative room returns and the waste-water treatment plant operating losses.

The hotel had an occupancy rate of around 50 per cent, with potential improvement impeded by inefficient operations, substandard maintenance levels and declining service standards (as revealed in negative reviews appearing on the TripAdvisor website). The conference space was also under-utilised.

A factor that diluted hotel revenue was the incorrect rental rates paid to individual room investors, due to an error made by previous management. Fifty-three rooms of the hotel were in the hands of 40 room investors, with the loss on these in 2014 being significant.

Meanwhile, the par-72 championship golf course – which was designed by Tony Cashmore and occupied a total area of 55 hectares (including 29ha freehold and 25ha of Crown leasehold land subject to an indigenous land use agreement) – suffered a \$500,000+ loss in 2014.

The land estate comprised 26 vacant lots of areas between 200m<sup>2</sup> to 800m<sup>2</sup>, and 105 unviable lots within an 'englobo' parcel. Recent mortgagee-in-possession sales had occurred at depressed price levels and improvement in the resort's presentation and

reputation was required to enhance land values.

The waste-water treatment plant was a complicated loss-maker that would only put off potential buyers. It was operated by an independent service provider at a high cost. In 2014 it incurred losses of \$200,000+.

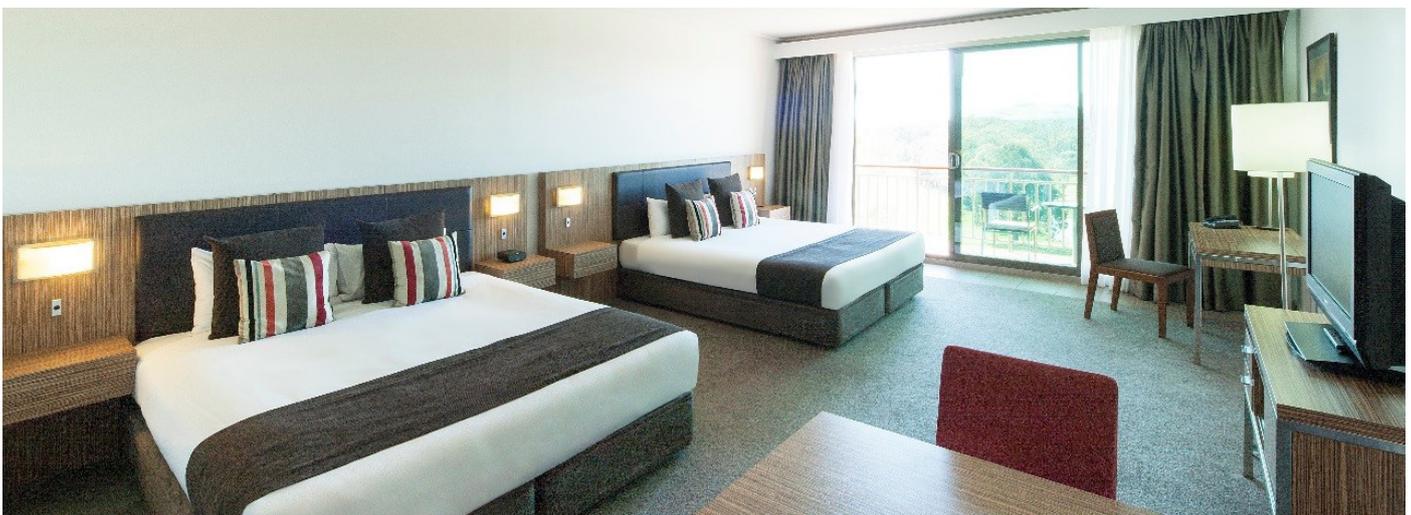
### Our strategies and actions

BRI Ferrier's primary objective was to successfully sell the resort. For this we'd need to achieve a sale amount higher than the price of the previous sale proposal (that hadn't proceeded), while covering ongoing trading losses and controller costs.

Our second objective was to leave the property in a better condition than it was when we took control. We believed progress towards this goal would attract a buyer that could deliver on our primary objective.

We therefore traded the business to stabilise operations prior to marketing for sale. At the same time, we explored avenues for removing risk and reducing losses by addressing the many issues involving the hotel, room investors, golf course, land estate and waste-water treatment plant.

We worked closely with the hotel manager, Accor, to improve its overall presentation, expand the resort shop, enhance breakfast buffet operations, install new cool room shelving, purchase additional furniture and operating equipment, repair defective kitchen equipment and update computer systems. We also re-purposed unused space for retail use.



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We adjusted the room owners' returns model to accurately reflect the terms of the room lease agreements. This involved negotiating in the face of considerable resistance from the investor group.

Although the golf course was unviable at the time we took control, it would have been difficult to sell the resort without the course in its championship format. We therefore sought to stabilise its trading performance through re-launching membership packages (focusing on family and corporate memberships). We restructured the course (by refurbishing the fairways, greens, bunkers and paths, and by installing par-3 tees on each hole for time-poor players). We trialed night golf and golf competitions (with cash prizes). We also obtained Council approval for deck golf (off the main bar/restaurant area).

Market forces dictated that we shouldn't focus on selling land in the estate. We recognised that more home building in the estate would contribute to improving prices. For this we sought to engage more closely with the local community and to maintain an ongoing dialogue.

A key impediment to the resort's sale prospects was the waste-water treatment plant. We therefore sought to either sell the plant to its existing operator or to simply close it, and to hand over sewer operations to the local town service provider, Central Highlands Water.



### Turnaround outcomes

BRI Ferrier's investment in the hotel was welcomed by staff and residents who wanted a viable future for the hotel. We maintained a close watch on operations and influenced management when efficiencies and opportunities were identified.



While the room investors initially resisted a change to their returns model, they ultimately accepted that the hotel's poor performance had to improve before returns could. The annual improvement to the resort's bottom line was \$300,000+.

In relation to the golf course, our changes received widespread positive feedback (even though sections of the golf club's membership actively resisted). We understand the purchaser has continued with our strategy.

The desirability of the land estate improved under our controllership, with the rate of house construction eliciting positive feedback from residents. Eventually, we were approached by a buyer for one of the vacant lots and achieved a strong price in light of recent sales. We had commenced developing a comprehensive internet land sales portal when the resort, as a whole, was eventually sold.

We reached a settlement with the waste-water treatment plant's existing operator to decommission it. At the same time, we negotiated with Central Highlands Water to switch the resort to the local town water supply.

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In all, we invested limited funds of \$250,000 on essential works and areas that would improve public perceptions. In the first year, the annual loss was reduced by approximately \$400,000.

In January 2015 we began initial discussions with RACV about their potential purchase of the resort. RACV made an off-market offer in April 2015 and we exchanged contracts in July 2015. Settlement occurred in November 2015.

The ultimate price was 44% above the previously negotiated sale price and almost 50% above the most recent independent valuation. The mortgagee's outcome was significantly better than would have been achieved had the earlier sale proceeded to settlement.

The turnaround ensures long-term stability for staff, the estate land owners, the community and the wider Victorian goldfields region.

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### About BRI Ferrier

BRI Ferrier is a unique affiliation of expert business recovery, insolvency, forensic accounting and advisory firms. We provide practical, innovative services that help financially distressed businesses to recover or at least minimise the negative impacts of insolvency.

### How BRI Ferrier can help

BRI Ferrier can assess your current situation and advise on a path forward to minimise further risk.

Early intervention is often the key for a successful restructure of your business. If you or your client is experiencing financial challenges then don't delay, contact us today.

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The initial consultation to your client is free, strictly confidential and without obligation.

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