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Hotel Management Software

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Checking into Hotel Management Software

Executive Summary

This is the first report in our vertical software series. Our first stop is travel technology – and based on our analysis, we believe hotel management software represents an interesting opportunity for growth investors. In this report, we outline why and aim to achieve four things:

i. Size of the market opportunity
ii. Outline different business models and capital formation
iii. Dissect recent strategic M&A objectives, and
iv. Provide our view on the valuation environment

Our conclusion is simple. We believe there is potentially a long growth trajectory across hotels, alternative accommodation and travel experiences. In our view, growth is expected to benefit from tailwinds in travel and the continued shift to cloud-native software applications. And pertinently, category leaders and technological disruptors may raise equity capital, as they continue to penetrate a global market opportunity worth over US$10 billion.

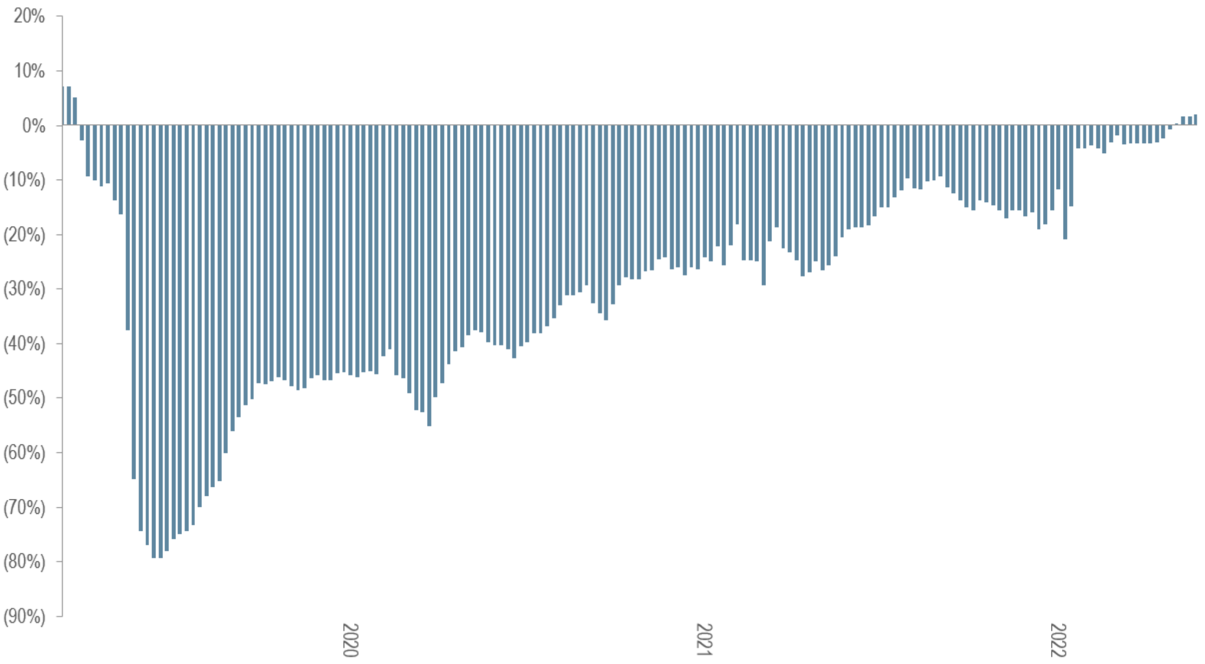
Introduction

At the start of this year in 2023 outlook, we highlighted travel tech as potentially good place to deploy capital within the consumer sector. The first half of 2023 lent support to our thesis – with travel demand robust and many publicly listed travel companies performing well. In this latest SUV report, we dive a little deeper and outline the operating and capital raising environment for hotel management (and alternative accommodation) software platforms.

The travel industry has rebounded to pre-COVID levels and Chinese travellers are yet to return in full force

The travel industry has seen volatile demand. 2020 revenues fell precipitously before an unprecedented rebound in bookings through 2021 and 2022. In 2023, consumers appear to continue to prioritize travel, looking to optimize spend against the backdrop of declining real wages and falling savings rates. Many investors expect travel demand to follow the pattern of other adjacent industries – with covid-driven demand extrapolated forward, before falling. At-home fitness, digital media, e-commerce, and home improvements have been some notable examples of covid mean reversion.

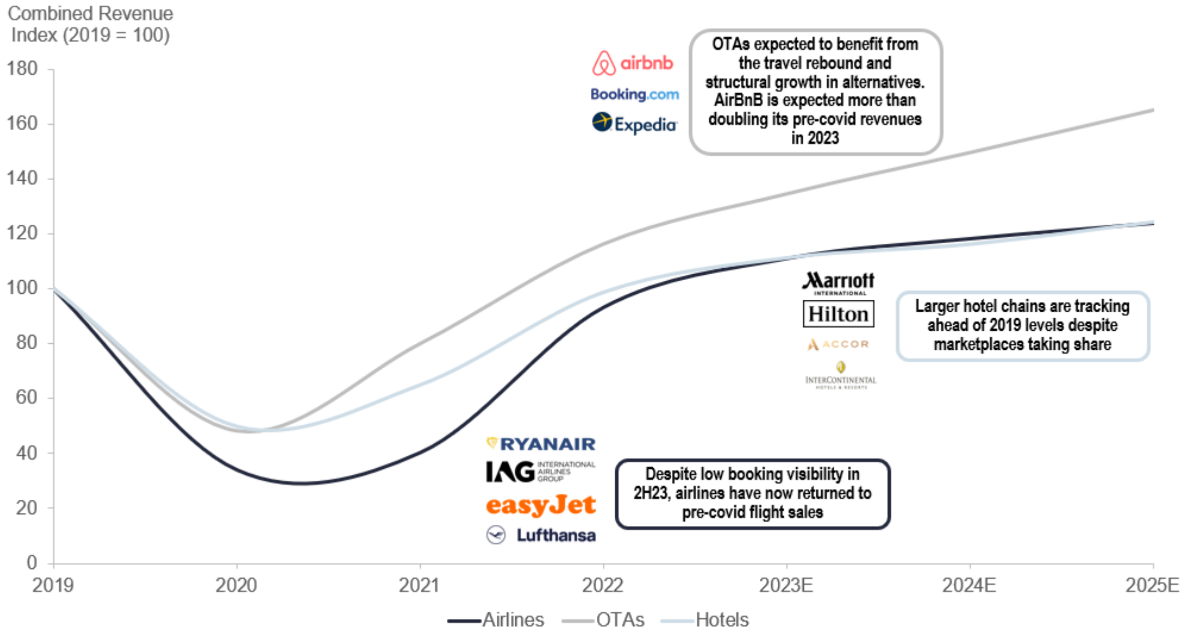
Figure 1: Flight Volumes vs 2019



Source: Citi Research

Pent-up demand, the more structural shifts to personalization, and rise of experiential travel have seen airline, hotel and overall travel revenues exceed 2019 levels. Despite some uncertainty in durability, demand has been resilient and a full return of Chinese foreign travel is yet to fully percolate into developed markets.

Figure 2: Travel revenue recovery to pre-covid levels



Source: Lazard VGB Insights, FactSet

The shift to the Cloud has driven company formation across hotel management software

The transition to cloud-based platforms over the last 10 years has had two effects. First, it has catalysed company formation across hotel management software, with many operators migrating from legacy on-premise providers (such as Amadeus) to cloud-native solutions.

Second, the democratization of software platforms has increased access to SMB hotel owners and small chains, and more recently lodging hosts. Newly created software companies have therefore often focused on the under-served independent and mid-market portion of the market.

Adoption has been driven by a few main benefits for operators, such as: maximizing occupancy, pricing optimization, operational efficiency and guest engagement. The ability to address both sides of the income statement with a vertical-focused solution, has helped adoption and attracted global growth investors alike. SiteMinder (ASX: SDR) listed on the public markets in late 2021, reaching around US$100 million in ARR.

Current penetration is low within an estimated global addressable market of around US$10 billion

There are a few ways to size the hotel management software market and understand the potential for future growth. We keep it simple and break down the market as follows.

- We estimate the market's true potential using a top-down approach
- We take a bottom-up approach to estimating the serviceable opportunity
- We stack our ARR estimates to understand the current level penetration

Let's walk through each method below.

For our top-down method we consider three sub-markets: i) hotel accommodation; ii) alternative accommodation (inc. short-term rentals); and iii) travel experiences.

- Broker reports estimate the global **hotel accommodation** market at around US$700 billion per annum. Taking this figure, we then account for a take rate of 15% relating to commission rates due to online travel agencies and tour operators. On this assumption, this places the global core accommodation market at around US$600 billion per annum.
- To gauge the **alternative accommodation** market, we take ABNB's gross revenues for FY22 of US$63 billion, and assume a market share of around 25%, in line with industry estimates. We therefore estimate this market at around US$250 billion each year.
- Finally, we approximate **travel experiences** at US$200 billion - applying what we believe to be a conservative mark-up to industry estimates of US$180 billion in 2020.
- Finally, we apply Gartner's estimate for hospitality software spend of 3.5% of revenue and use Deloitte's estimate of around one-third of IT spend being allocated to third-party software. Applying an estimated 85% contribution for SMBs (in line with SiteMinder's IPO prospectus), **we estimate the global hotel management software TAM at US$10 billion.**

Figure 3: Top-Down TAM – Hotel management software

	Top Down
Accomodation	600
+ Alts	253
+ Experiences	200
= Addressable market ($bn)	**1,053**
x share of software spend	3.5%
= Combined opportunity ($bn)	**37**
x IT spend on 3P tech	33%
x SMB penetration	85%
= TAM ($bn)	**10**

Source: Lazard VGB Insights, Gartner, Deloitte

Our bottom-up approach is simpler. We first take the number of hotels globally – which is around 750k to 1 million hotels by some measures. We then apply an 85% contribution for SMBs. In reality, this differs by geography - for example, the contribution of independent hotels is lower in the US vs. Europe where the hotel market is more fragmented. We then apply US$3k of ARR per hotel room, in line with SiteMinder's monetization per hotel – we estimate the **serviceable market at just under US$2 billion annually.** We would expect the delta compared to the TAM to narrow over time as monetization improves.

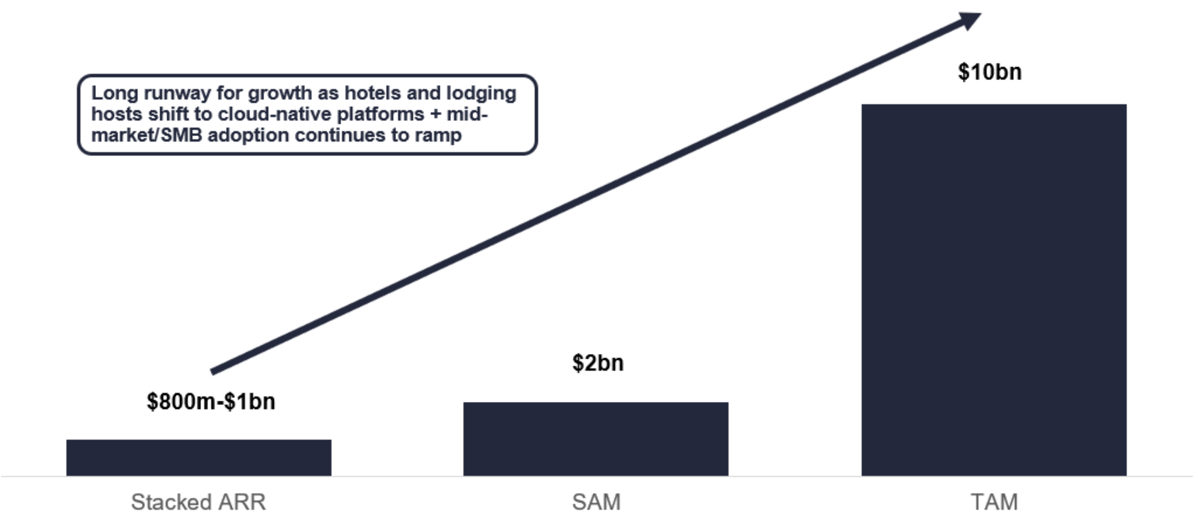
Figure 4: Bottom-Up TAM – Hotel management software

	Bottom Up
Hotels (k)	750
x share of SMBs	85%
= SMB hotels	**638**
x avg. ARR ($k)	3.0
= Market opportunity ($'bn)	**1.9**

Source: Lazard VGB Insights

Finally, we stack ARR of some of the key industry players. Based on our internal estimates, the overall market opportunity lies near US$10 billion, the current SAM around US$2 billion, and stacked current ARR sits below US$1 billion (inc. Sabre, Amadeus and Oracle). We therefore believe there could be considerable white space for future growth.

Figure 5: Summary of market sizing approaches



Source: Lazard VGB Insights

Important adoption drivers include travel tailwinds and labor market dynamics

Beyond the large addressable opportunity and shift to the Cloud, there are additional reasons which may support continued adoption. We outline a few of these below.

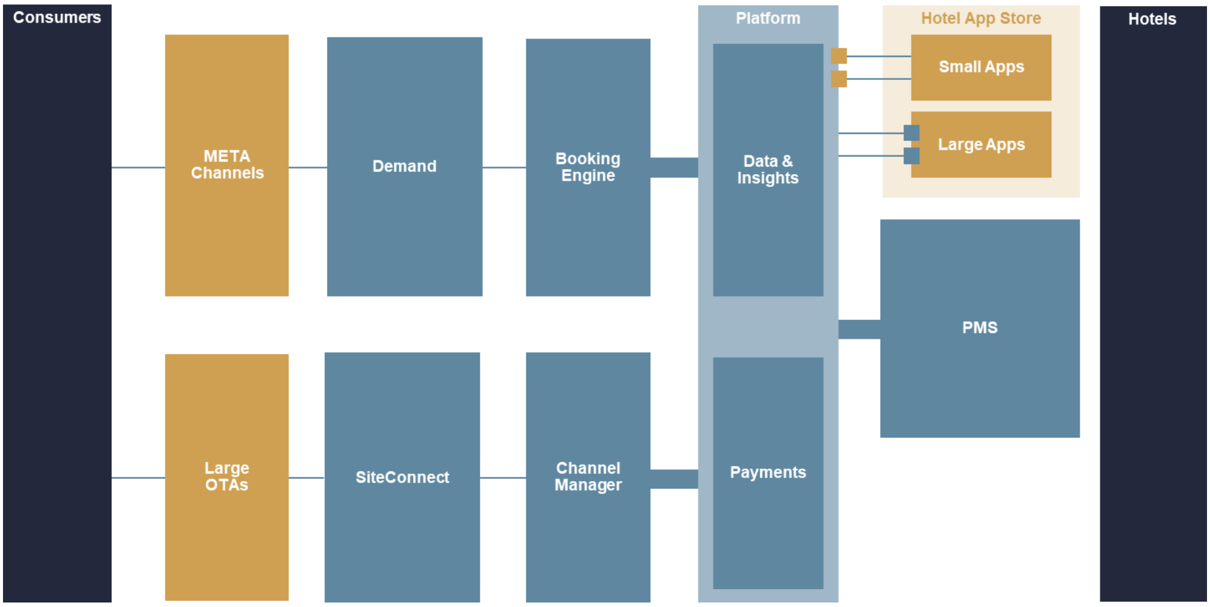
- **Recent tightness in the labour market** has helped drive cost inflation across hospitality. The sector saw the highest proportion of workers being furloughed or laid off, and re-hiring into the recovery has been challenging. According to US BLS data, hospitality payroll inflation ran at almost 10% in 2021 and 2022 - and despite the return of industry revenues, the volume of workers still remains below pre-2020 levels.
- **Travel demand is typically both seasonal and cyclical**. Increasing cost flexibility – as well as focus on front and back-office efficiencies - is key to building a sustainable economic model for operators.
- **Trends in consumer behaviour and growth in personalization and experiential travel** have increased the need for end-to-end guest engagement. Increasing ownership of the guest journey can help deliver a more bespoke experience, with an opportunity to upsell.
- **Online travel penetration has now increased to over 50% according to industry reports,** meaning hotel owners have increased their reliance on traffic volumes from OTAs which share in a hotel's economics (typical take rates are 10% to 15%). With digital penetration expected to continue to rise – helped by pressures on offline tour operators – the integration of direct traffic tools can be supportive to hotel economics.

Business model formation has been centred around three main areas

Now let's shift to the competitive environment. Founders of hotel management software companies have carved up the tech stack into three core business models. The figure below outlines core functions for hotel operators.

- **Revenue management** which includes channel management, price aggregation and benchmarking, predictive analytics and inventory optimization.
- **Property management systems** help streamline front and back-office operations, as well as management of the guest journey.
- **Full stack offerings** combine both revenue and property management.

Figure 6: Hotel management tech stack



Source: Lazard VGB Insights

Capital formation around these areas has seen companies emerge across each component, such as **OTA Insight** (revenue-management), **Mews** (PMS), and **Cloudbeds** (full stack). Some other early-stage companies have also gained traction including **The Hotels Network, Duve** and **Amenitiz**.

Core model differentiation is often centred around the product offering, customer size, depth of third-party integrations and payment capabilities. For example, **Amenitiz** targets independent hotels with a full stack offering. **The Hotels Network** aims to optimise direct channels using the data from a freemium benchmarking tool. **Duve** addresses the guest experience pre-dominantly.

Figure 7: Selected Hotel Software Companies

Company	Location	Employees	Last round size	Last round Date	Total raised to date	Description
Cloudbeds	🇺🇸	757	150	Oct-21	275	Full stack solution including channel management, booking engine, PMS and payments processing. The Cloudbeds marketplace offers integration to partners, or customers can connect to other providers using the API. Focus on selling into mid-market/SMB hotels and holiday rentals
SiteMinder	🇦🇺	900	67	Nov-21	250	Publicly-listed hotel commerce software offering channel management, booking engine, payments processing and integrations to PMS solutions. Used by 36k hotel customers in 150 countries, focusing on SMB end of the market and processing >100m reservations annually
MEWS	🇨🇿	750	185	Dec-22	125	PMS automating both front and back-office operations for hotels, with a payments processing at any point of the guests' journey. Mews operates the industry's largest 3P marketplace with over 750 integrations including revenue management, guest engagement and upselling.
OTA INSIGHT	🇬🇧	314	80	Sep-21	115	Revenue management software using market and PMS data to help hotels increase their revenue. Used by over 60k hotels in 185 countries, focusing on independent hoteliers who account for >90% of users.
CANARY TECHNOLOGIES	🇺🇸	90	30	Aug-22	47	Guest management system including contactless check-in, guest messaging and upselling. Digital authorizations product helps hotels reduce chargebacks and fraud. Used by over 20k hoteliers globally including Hilton, Wyndham and Four Seasons
amenitiz	🇪🇸	246	30	Apr-22	38	All-in-one solution for independent hotels including website builder, channel manager, PMS and payments solutions. Integrates with 120 OTAs to increase visibility, and currently used by >8k hoteliers
eviivo	🇬🇧	169	8	Dec-20	36	All-in-one solution for independent hotels, B&Bs and alternative accommodation hosts. Offers website builder, channel manager, guest manager and PMS system. Used by over 20,000 independent properties
THE HOTELS NETWORK	🇪🇸	158	11	Jun-20	15	Software to help hotels grow their direct channel, currently used by over 19k hotels. Benchmark a hotel's website data and user metrics to help identify opportunities for growth, and personalize offers to customers to increase conversion rates and bookings
Duve.	🇺🇸	27	10	Jun-22	14	Guest management system including contactless check-in, guest app, guest messaging and upselling. Over 1k customers with 250k engaged guests per month across 64 countries. Can integrate with >100 partners including Assa Abloy, Stripe, Oracle, WhatsApp, Mews and Cloudbeds
Profitroom	🇵🇱	219	8	Jan-20	8	Booking engine, channel manager and digital marketing services for independent hotels used by 3.5k properties globally
eRevMax The Gold Standard of Connectivity	🇺🇸	193	-	-	-	Booking engine and channel manager for hotels. Has a separate platform to help hotels manage their 3rd party software such as PMS's, booking engines and revenue management systems
HotelRunner	🇺🇸	102	7	Jan-23	12	Booking engine, channel manager, PMS and guest engagement. Selling into 64k hotels across 193 countries

Source: Lazard VGB Insights, Pitchbook Data Inc.

The growing alignment between traditional hotels and short-term rentals may have been a further driver of capital flows, likely buoyed by de-centralized consumer behaviour and correlation in demand patterns between traditional and alternative accommodation. Growth in alternatives seems to have led to an increasing sophistication among hosts – and two business models have emerged. One, growth of pure-play rental management software firms such as **Guesty** and **Lodgify**. And two, expansion of hotel management platforms which have re-purposed existing platform features, such as **Cloudbeds**.

Figure 8: Selected Alternative Accommodation Software Companies

Company	Location	Employees	Last round size	Last round Date	Total raised to date	Description
Guesty		800	170		279	Channel manager, PMS and guest engagement software for short-term holiday rentals. Guesty has its own payments and insurance solutions, and provides integrations to 3rd parties via its marketplace. Separate offerings for hosts with <3 properties and hospitality businesses
LODGIFY		183	30	Oct-22	49	PMS, channel manager and website builder for alternative accommodation (B&Bs, cabins, apartments, villas, small hotels). Integrates into Airbnb, Booking.com and Expedia. Payment processing solution allows owners to accept credit card payments globally
Hostfully		78	4	May-22	7	Full stack solution for holiday rental properties, with core features include channel management, automation of repetitive tasks and a booking pipeline tool. Hostfully integrates with over 100 partners to provide payment processing, insurance and dynamic pricing solutions. Currently processing >21k bookings per month in 80 countries
Hostaway		82	175	May-23	175	All-in-one vacation rental software which integrates to >100 3rd party tools via its marketplace. Offers PMS, channel manager, guest experience tools, analytics and payment processing via its partners. Founded in 2015, the business was bootstrapped until receiving $175m investment from PSG Equity in May 2023

Source: Lazard VGB Insights, Pitchbook Data Inc.

Use of APIs and integration of payment capabilities among recent technology trends

While the product modules are well-defined, our analysis suggests there has been a couple of key technological trends. We discuss these below.

The use of APIs and integrations across third-party applications has assisted hotel management platforms to integrate across the SME tech stack. The creation of more malleable product features and third-party app marketplaces can shorten sales cycles and increase sell-through into a wider set of addressable customers. The use of middleware is important to simplifying the complexity across core software modules.

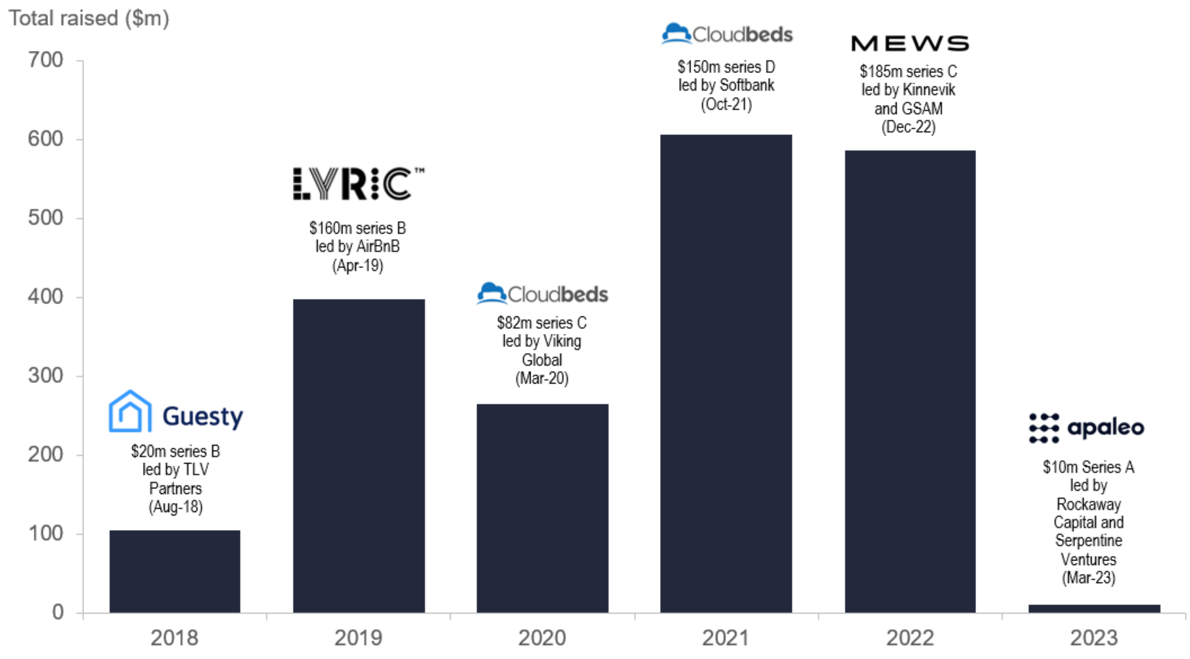
Payment processing capabilities have become a focal point across vertical software and within hospitality. Hotels are included, with platforms either embedding or leading with integrated payments. Mews is a good example, with >50% of ARR attributed to payment volume rather than traditional SaaS. While payments can cause margin dilution, the ability to lower churn and increase customer monetization is often viewed as beneficial.

Companies like Stripe, Square, and PayPal act as both a payment processor and a gateway. Mews offers a simple API to manage the payment flow and accept, settle and reconcile payments in real-time. While there can be high upfront costs – in-house payments can significantly simplify workflows for hotel operators.

Fundraising volumes have fallen but we expect companies to raise capital in the coming quarters

Despite the recent strength in demand, we have seen a slowdown in deal activity in hotel management software from the 2021 highs – albeit not to the same extent as the broader venture & growth funding market. 2022 saw around $0.6 billion raised, 5% below the prior year - 2023 has been more subdued but we may expect activity to pick up for two reasons: i) the bid-offer spread between investors and companies we believe is narrowing, and ii) sub-scale players are likely to be acquired. Incumbents have been active in M&A historically as we outline below.

Figure 9: Year-on-year Fundraising Trends



Source: Lazard VGB Insights, Pitchbook Data Inc.

Our analysis of M&A below supports the second point we have identified. While many players adopt different models, many companies have used acquisitions to expand their product, take out competitors and expand geographically. A list of M&A activity in the sector over the last 18 months is detailed below.

Figure 10: Recent M&A - Hotel Management Software

Company	Target	Date	Description	Rationale
MEWS	HOTELLO	Apr-23	Montreal-headquartered cloud PMS solution for hotel properties	Geographical expansion - 12% of revenues came from US pre-acquisition
	Bizzon	Mar-22	Point of sale software: inc. inventory and payments	Product expansion - guest at the centre
	CENIUM Hospitality ERP	Feb-22	PMS acquired from Nordic choice hotels	Horizontal expansion
SiteMinder	GuestJoy	Aug-22	Automate and personalize guest communications	Product expansion - Siteminder next-gen platform
Cloudbeds	whistle	Jun-22	Guest engagement with unified communication tools, and digitized arrival experience	Product expansion - remove friction in the customer journey
	Ads Hotel	May-22	Ad tech platform designed for hospitality, offering independent hotels	Product expansion - Cloudbeds Amplify
	ODYSYS	May-22	Marketing firm offering a flexible all-in-one platform to independent lodging businesses	Product expansion - Cloudbeds Amplify
Guesty	kigo	Sep-22	Spain-based vacation rental management software and cloud-based platform	Horizontal expansion
	HiRUM	Sep-22	Australian property management system	Geographical expansion
	StaySense	Mar-23	Marketing and tech platform for vacation rental managers	Product expansion - direct booking and marketing tools
	yieldPlanet	Sep-22	Hotel-focused revenue and distribution platform	Product expansion - traditional hotels
	my:vr	Apr-21	North American property management system	Geographical expansion
	Your Porter App	Apr-21	North American property management system	Product expansion - support more property types
OTA INSIGHT	Transparent	Mar-22	Data aggregator to optimize commercial decision making	Product expansion - leverage convergence of hotels and vacation rentals
	kriya	Apr-22	US-based hotel revenue intelligence platform	Product expansion - next generation commercial platform
amenitiz	dodo Hotel Management System	Oct-22	Online hotel training tool	Product expansion - help adoption for independents

Source: Lazard VGB Insights, Pitchbook Data Inc.

We can make a few observations. Revenue management platforms seem to have broadened their scope through expanding into alternative accommodation or adding complementary product features. Property management systems, who typically have more access to larger hotel chains vs. revenue management, have further developed payment capabilities and looked to grow via horizontal consolidation. Our summary of the activity among some main players is set out below.

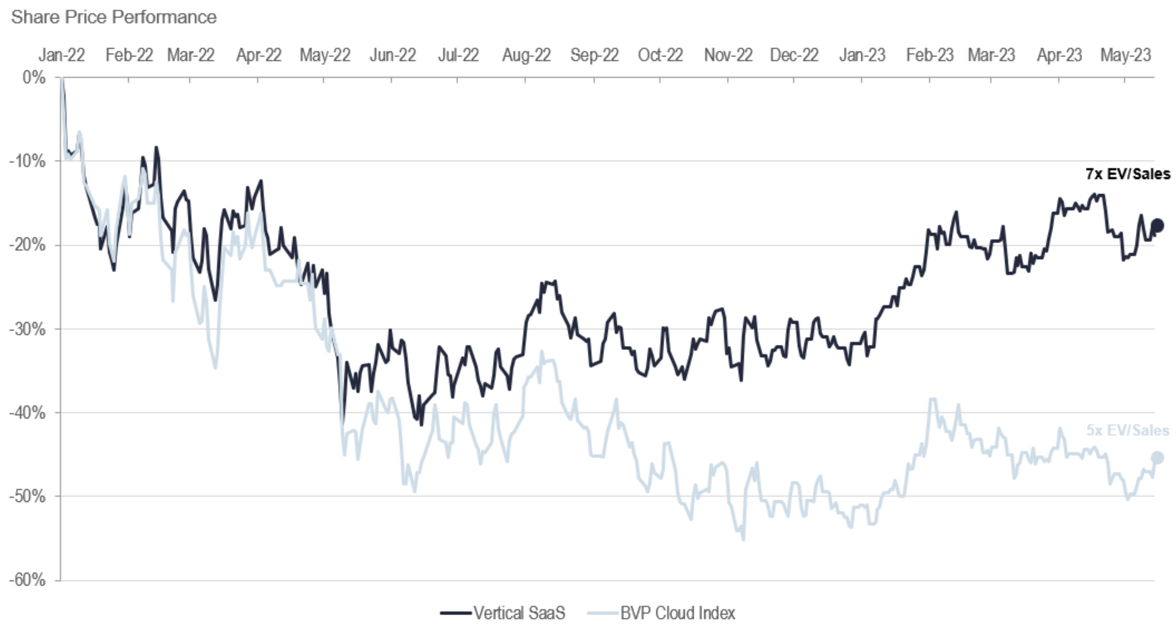
- **Mews** has looked to expand geographically and deepen its moat within payments.
- **SiteMinder** has been relatively less acquisitive than others, but recently added guest communication capabilities to its product suite.
- **Cloudbeds** has targeted advertising and data platforms to expand capabilities in short-term rentals and lodging – supporting the launch of Cloudbeds Amplify. Its most recent acquisition also aims to reduce friction throughout the guest journey.
- **Guesty -** the most acquisitive company we screened – has targeted geographical expansion, entry into the traditional hotel space, as well as adding marketing capabilities for hosts.
- **OTA Insight** has similarly focused on the convergence of hotels with alternative accommodation, with the acquisition of Transparent.

6x ARR is likely to be a baseline multiple for valuation in this vertical

We are often asked where valuations currently lie. At a high level, SiteMinder may provide real-time insight into the ARR multiples investors are prepared to pay - but we can outline the potential valuation backdrop in a number of ways.

First, assessing the environment for vertical software, which we believe has been relatively resilient. When we plot EV/sales FY+1 of vertical software names against horizontal peers, the premium is around 20%. That may in part be due to their financial profile (growth, margins, FCF) but also because vertical players have been subject to buy-side M&A activity.

Figure 11: Vertical Software Companies Have Outperformed Since Jan 2022



Source: Lazard VGB Insights, Factset, Bessemer Venture Partners Nasdaq Emerging Cloud Index. Vertical SaaS Companies group comprises Veeva Systems, Toast, Procore Technologies, nCino, Duck Creek Technologies, Sabre Corp, Instructure, Vertex, Samsara, Clearwater, MeredianLink and Intapp

Second, taking precedent transactions. While the valuations of private fundraising rounds can be difficult to attain, some recent transactions in the space have yielded quite different outcomes. On the one-hand, double-digit multiples may be commanded for assets which deliver high-quality metrics, with strong monetization of their respective point solutions. Adding payment processing capabilities seems to have been viewed as an attractive attribute by investors. Conversely, some narrower products with lower growth have traded in the low/mid-single-digits.

Third, assessing public comparables. Siteminder, as the most liquid asset in the space offers a number of potential insights on multiples and terminal margins. Based on current ARR of around US$100m, the company trades on 6x EV/ARR, with forecasted year-on-year growth of 20-30%. The company targets long-run EBITDA margins of 20%.

Fourth, we calculate customer economics. This method can be used across software and consumer-internet verticals. Below, we estimate the lifetime value of a hotel – near US$13k – based on ARPU, gross margin, churn and CAC assumptions. We then multiply by the 37k hotels in Siteminder's portfolio to reach an indicative firm value of $300 million. This is almost 2x below the current market capitalization of the company. In other words, the equity market appears to be paying a premium for future growth and an improvement in the unit economics.

Figure 12: SiteMinder Valuation

	SiteMinder
ARR ($m)	99.2
/ Hotels (k)	36.6
= ARPU ($k)	**2.7**
x gross margin	82%
= annual gross profit	**2.2**
x (1 - monthly churn)	7.6
= lifetime pre-CAC	**16.8**
- CAC	6.4
= lifetime post-CAC	**10.5**
x (1 - tax rate)	79%
= lifetime cash flow	**8.3**
x hotels (k)	36.6
= Implied company value ($m)	**302.2**
Market cap	550.0
/ Implied company value	302.2
= Multiplier	**1.8x**

Source: Lazard VGB Insights, Pitchbook Data Inc.

Conclusion

We believe the hotel management software market is well placed to grow into an overall opportunity reaching US$10 billion across hotels, alternative accommodation and travel experiences. That is, the current serviceable opportunity is only US$2 billion, and the stacked ARR of current players is estimated below US$1 billion. In our view, the shift to cloud and the SMB adoption of software tools will continue to support increased market penetration within this vertical. Furthermore, we anticipate consolidation to be a focus as category leaders look to accelerate growth through acquiring smaller competitors and adding modules to their product suite.

While fundraising has been relatively quiet this year, we may expect deal activity to pick up in the next 12 months. From our perspective, there are a few reasons why: i) the current financial profile of many companies is loss-making; ii) strategic objectives and M&A appear to be broadly aligned; and iii) technological disruption is expected to continue. Capital has accrued to category leaders across many sectors and verticals through this more difficult investing environment, and we think investors will only be prepared to underwrite roll up strategies where the outlook for growth remains intact. In our view, hotel management software lies within this categorization.

Ali Birkby

Vice President
Venture & Growth Banking - London

Ali Birkby joined Lazard in March 2022 to lead the European Insights Team in Europe. He provides in-depth analysis of the key thematic trends underpinning European venture capital, and aims to ensure the Venture and Growth Banking practice advises the most disruptive businesses, with the strongest competitive positions.

Prior to Lazard, Ali spent 4 years at Citi as an Equity Research Analyst, covering the US Internet & Media and European Consumer sectors. Ali analyzed a broad range of industries, with covered companies ranging Amazon and Alphabet, to Netflix and Disney, to Peloton and Robinhood; as well as HelloFresh and Ocado.

Before Citi, Ali trained as an Accountant at PwC. Ali is both CFA and ACA qualified, with an undergraduate degree from Loughborough University. He is a keen follower of most sports and plays for Esher Cricket Club. Ali is also a member of the MCC.

Matt Sykes

Analyst
Venture & Growth Banking - London

Matt joined Lazard in November 2022 to work on the European Insights team in London. He supports Ali and Nick in providing analysis on key trends in European venture capital, and curating the T100 index of the most exciting venture and growth companies in Europe.

Prior to Lazard, Matt was an equity analyst at Abrdn for 2 years, where he spent time with the UK, European and Global Emerging Market Equity teams, as well as the Emerging Market Debt team. During his time at Abrdn he covered a broad range of sectors including UK Retail, European Industrials and Emerging Market Energy.

Matt has passed all 3 levels of the CFA program and holds an MA in Economics from the University of Edinburgh.

Nick James

Managing Director, Co-Team Lead
Venture & Growth Banking - London

Nick James joined Lazard in January 2020 to establish and co-lead the Venture and Growth Banking practice in Europe. He focuses on curating the Lazard T100 index and providing detailed research on the Venture and Growth asset class. Formerly a specialist Equity Research Analyst at Numis Securities in the Technology sector, with a focus on private 'scale -up' venture investments.

In his former role focusing on UK listed technology companies, Nick won multiple awards including Starmine Top Stockpicker awards in 2010 and 2012. He has been consistently rated highly by investors in the Extel survey of analysts. Well regarded for bringing unique and profitable perspective to the semiconductor, tech hardware and industrial technology spaces, Nick's historic coverage included companies such as ARM Holdings, Alent, AZ Electronics, CSR, Imagination Technologies, Pace, Renishaw, Spirent and Wolfson.

Nick has been active in the Technology investment sector since 1998, previously with Nomura and Panmure Gordon, beginning his career in Venture Capital before moving into Equity Research in 2005, then focusing on Venture & Growth Banking since 2017. Nick likes doing CrossFit and watching NFL and UFC. He also loves house music and is an occasional DJ.

Tyler Holly

Vice President
Venture & Growth Banking - Austin

Tyler Holly joined Lazard in 2022 to lead VGB's U.S. Insights function and to assist with private capital raises for fast-growing North American technology companies. The Insights team produces sector-focused research and analysis tailored to North American venture and growth industry stakeholders.

Prior to Lazard, Tyler was a Vice President at Harbert Growth Partners, where he sourced and led several enterprise software growth equity investments and executed technology investments across a wide range of verticals.

Before that, Tyler served as a Chief of Staff for Capital One's B2B payments leadership team, and spent time with the U.S. federal government and in investment banking and management consulting roles.

Tyler graduated with a Bachelor's degree with High Distinction from the University of Virginia.